

Filipa Figueira

How to Reform the EU Budget?

A Methodological Toolkit

Filipa Figueira

How to Reform the EU Budget?

A Methodological Toolkit

– SIEPS 2009:5 –

Report No. 5
October/2009

Publisher: Swedish Institute for European Policy Studies

The report is available at
www.sieps.se

The opinions expressed in this report are
those of the author and are not necessarily
shared by SIEPS.

Cover: Svensk Information AB

Print: EO Grafiska AB

Stockholm, October 2009

ISSN 1651-8942

ISBN 978-91-86107-11-6

PREFACE

Today a substantial part of the European Union's (EU) budget is spent on agriculture, a declining sector in Europe, while other and more prioritised policy areas receive little or no funding. It is thus not surprising that a common critique levelled against the EU's budget priorities is that they are out of touch with the realities of the Union.

This critique has long enjoyed support in the academic literature, where the question of which policies the European Union should finance has received much attention. It would therefore seem obvious that the European Commission would have a substantial source of knowledge to rely on when it is drafting its proposal for a new EU budget. However, the author of the present report, Filipa Figueria, argues that the Commission cannot rely on the existing body of knowledge, since it fails to acknowledge the uniqueness of the EU budget in relation to a national budget. The EU is foremost a legislative union and its spending powers are small and mainly there to support regulatory initiatives.

The report attempts to take the analysis a step further. It does so by integrating insights from a number of disciplines so as to facilitate better decision-making on EU expenditures. The multidisciplinary approach employed combines economics of the public sector, fiscal federalism, political criteria and legal principles. A twelve-step analysis is developed, which is then applied to the main areas of policy-making. It is concluded that more money should be spent on *inter alia* research, development and transport and energy policy, while agricultural funding should be reduced to nil.

Anna Stellingner
Director, SIEPS

The Swedish Institute for European Policy Studies, SIEPS, conducts and promotes research and analysis of European policy issues. The results are presented in reports and at seminars. SIEPS strives to act as a link between the academic world and policy-makers at various levels.

ABOUT THE AUTHOR

Filipa Figueira is Associate Research Fellow at the Centre for European Policy Studies (CEPS) in Brussels. Her research interests include the EU budget, cohesion policy, and the allocation of competences between EU and national levels (fiscal federalism, subsidiarity). She is currently also a visiting researcher at the School of Public Policy, University College London.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	6
1 INTRODUCTION	10
2 METHODOLOGY	12
3 APPLICATION TO POLICY AREAS	23
3.1 Choice of policy areas	23
3.2 Application step by step	25
3.2.1 Agriculture	25
3.2.2 Cohesion policy	28
3.2.3 Communication	32
3.2.4 Consumer and health policy	34
3.2.5 Culture	35
3.2.6 Development policy	37
3.2.7 Education	40
3.2.8 Employment and social affairs	41
3.2.9 Enterprise and industry	44
3.2.10 Environmental policy	46
3.2.11 External relations	48
3.2.12 Justice, freedom and security	51
3.2.13 Research policy	54
3.2.14 Transport and energy	56
3.3 Proposal	58
CONCLUSIONS	59
REFERENCES	60
SAMMANFATTNING PÅ SVENSKA	63

EXECUTIVE SUMMARY

The current review of the EU budget could finally lead to the long-awaited reform of European finances. The European Commission is under a mandate from the EU Member States to reexamine the budget in-depth. Although the economic and institutional crisis currently affecting the EU render a deal more difficult, the review could still lead to significant results.

The EU budget has long been criticised as being out of touch with the realities of today's EU. Almost half of the budget is allocated to agriculture, a sector which is declining in Europe. By contrast, areas where the EU is becoming increasingly important, such as home affairs or policies for economic growth, are almost not supported by its budget. There is therefore a growing consensus, both within the EU institutions and between national governments, that the EU budget needs to be radically reformed.

However, as the European Commission is currently drafting its proposal, it is becoming clear that the existing literature does not provide an adequate basis for the Commission's work, because it is considered too far removed from political reality. In particular, the literature does not take into account that the EU budget is not equivalent to a national budget, because the EU is essentially a legislative union, where spending powers have remained small and are mainly there to support the regulatory initiatives. Therefore a different type of analysis is needed to address not only the economic issues involved, but the political aspects as well.

This study attempts to help fill the gap in the literature by proposing *a methodology for analysing the EU budget that is consistent with the current political reality*. The method proposed is multidisciplinary, combining the branch of economics generally used to analyse the EU and its budget (known as fiscal federalism) with another branch of economics (public sector economics), political science and the legal concept of subsidiarity. From these four disciplines, twelve steps are derived, and this twelve-step analysis is applied to the main areas of policy-making to assess whether or not they should be funded by the EU budget.

In addition, the analysis addresses two points that are often ignored in the literature on the EU budget. One is that it is not sufficient to analyse a policy as a whole, without differentiating between the sub-areas of that policy. The second is that the EU budget should not be assessed in isolation from the national budgets. While some academics have recently emphasised these two points, to the knowledge of this author, no comprehensive analysis of the budget has yet been performed that actually follows them.

Hence the focus of this study will not be on whether a policy area *as a whole* should receive funding, but rather on *which parts* of a policy area that should be funded by the EU budget. It is argued that for most policy areas the question is not whether or not they should be funded in the first place, but which specific programmes within the policy area should receive EU funding. This relates to the second point, that EU spending should be analysed in relation to national spending. EU spending programmes co-exist with national spending programmes and must be designed with this in mind.

Although this report acknowledges the political realities of the EU, it deliberately avoids basing its proposals on political economy considerations. That is to say, a choice was made to propose an optimal structure for the EU budget, rather than the structure most likely to be approved by the Member States in the coming negotiations. It is argued that the first step in the analysis is to determine which areas and programmes should be funded by the EU budget. The second step is then to determine which reforms in the direction of the optimal budget can realistically be taken in this review, and which should be left for the future.

The report is structured as follows: Section 2 describes the methodology proposed. The method combines the insights of economics of the public sector, fiscal federalism, political criteria and legal principles to analyse the EU budget. These insights are then translated into twelve conditions that a policy must pass if it is to be funded by the budget.

Section 3 then applies this method to the different policy-making areas. The section begins by selecting the areas that will be analysed. Each area is then assessed in detail using the twelve steps. The section concludes with a proposal of how the EU budget should be spent. The concluding section points out additional issues for reflection and further study.

The following paragraphs offer a brief summary of the methodology. The first steps of the methodology are derived from public economics, the branch of economics that analyses the activities of government. At national level, these theories underpin most public policies; however, Figueira (2008) argues that they are often forgotten at the EU level. The three steps derived from public economics are: 1. Is the spending programme needed, to address a market failure or an equity goal? 2. Does this failure/goal require government action in terms of funding or regulation? 3. Can intervention be cost-effective?

The following steps are derived from fiscal federalism, the branch of economics that analyses which functions of a government are best performed

at a centralised level and which are best done at a decentralised level. When applied to the EU, these theories analyse which policies should be the responsibility of the EU and which should remain national – in other words, the question of what the EU should do.

The three steps derived from fiscal federalism are: 4. Should the spending programme be allocated to the EU level because it is addressing EU-level externalities or economies of scale? 5. Or should it be allocated to the national level because preferences regarding that policy area differ too much between countries? 6. Are there government failures affecting the policy area that can be minimised at EU or at national level?

This study argues that, alongside economic factors, an analysis of the EU budget must address political issues. To reflect these issues, two types of analysis are used. The first (step 7) is a discussion of what should be the priorities of the EU budget: whether the EU budget can be seen as a bargaining tool for the Member States; as a way to make the EU more popular; as leverage for national policies; or whether it should have only allocative or redistributive objectives.

The second type of analysis is a discussion of which policies are legitimate at the EU level, based on the academic literature from the field of political science on the legitimacy of the EU. The steps derived are: 8. Does public opinion support this policy being at EU level or at national level? 9. Are the political procedures followed in relation to this policy more accountable and democratic at EU or at national level? 10. Is it justified from a normative point of view to allocate the policy to the EU?

Finally, the legal principles in the EU Treaty are used to give further guidance. Step 11 looks at the concept of subsidiarity, which says that the EU should only take action in areas where it can be more efficient than the national governments. Step 12 looks at the principle of proportionality: if the EU does intervene, the intervention should be proportional, or limited to what is necessary to achieve the objective of the policy.

In the second part of the study, the methodology will be applied to the main areas of EU expenditure. Each area will be analysed based on the twelve steps. By answering those questions it will be possible to conclude whether or not a certain area of spending should exist in the EU budget.

The main conclusions are twofold: Firstly, contrary to what is often recommended in the literature, the EU budget should not be an exact reflection of EU priorities. This is because EU activities are essentially based on regulation, not on funding. Thus a decision to fund a policy at EU level

should be based on whether funding is needed to support the regulatory activities, not on how important the policy is at EU level.

Secondly, although ideally the EU budget should target a small number of areas, so as to be effective despite its small size, it is also true that the EU is now involved in almost all areas of policy-making and that action needs funding to be effective. A solution to this contradiction could be to keep small budget lines to support most areas.

The *concrete proposals* are as follows:

- Cohesion policy should continue receiving the same share of the EU budget, that is, approximately one third of the budget;
- Agriculture should no longer be an item in the budget;
- Spending on research policy should be significantly increased; research should become the second largest item after cohesion policy;
- Four other policy areas should have their spending shares significantly increased: development policy; external relations; freedom, security and justice; transport and energy;
- The following areas should receive only a small amount of operational funding: education; culture; social affairs and employment; enterprise; environment; consumer and health policy; and communication.

1 INTRODUCTION

With four years to go before the 2007-2013 budgetary package expires, EU Member States would now normally be enjoying a welcome break from those thorny negotiations on “who gets what” from the EU budget. Instead, they are about to receive a proposal for budget reform from the European Commission that they will need to debate in the Council.

The reason for this early start in the negotiations is a clause in the agreement on the Financial Perspectives for 2007-2013 that stipulates a review of the budget half way through its seven-year period (Council of the European Union, 2005). It was hoped that this “mid-term review” would lead to the results that had not been achieved in the negotiations. At the time, the necessary political deals had not been achieved, and the new package was almost identical to the previous one.

Under the agreement, the Commission was to issue its proposal in 2008 or 2009. The Commission therefore launched a consultation procedure in September 2007 to seek opinions and advice from both experts and stakeholders on how the EU budget could be restructured (European Commission, 2007). Now the hardest part of the work remains to be done: presenting a proposal on how to reform the EU budget that will both bring the necessary changes and also be acceptable to all Member States.

However, it is becoming clear that the existing literature does not provide a sufficient basis for the Commission’s proposal because it is considered too far removed from political reality. In particular, studies do not take into account that the EU budget is different from a national budget due to the EU being essentially a legislative union where spending powers have remained small and exist mainly to support regulatory initiatives.

This study attempts to help fill the gap in the literature by proposing a method for analysing the EU budget that is consistent with the current political reality. The method combines insights on the economics of the public sector, fiscal federalism, political criteria and legal principles to analyse the EU budget. These insights are translated into twelve conditions which, if met, imply that a policy should be funded by the EU budget.

The focus of this study will not be on whether a policy area *as a whole* should be funded by the EU budget, but rather on *which parts* of a policy area should be funded. It is argued that for most policy areas, the question is not whether or not they should receive EU funding, but which specific programmes within the policy area should be EU-funded. In addition, EU spending will be analysed in relation to national spending. EU spending

programmes co-exist with national spending programmes and must be designed with this in mind.

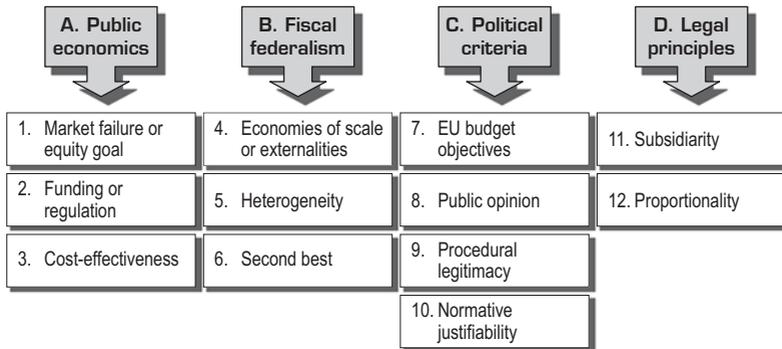
Although this report acknowledges the political realities of the EU, it deliberately does not base its proposals on political economy considerations. That is, a choice was made to propose the optimal structure of the EU budget, and not the structure most likely to be approved by the Member States in the coming negotiations. It is argued that the first step in the analysis is to determine which areas and programmes should be funded by the EU budget. The second step is then to determine which reforms in the direction of the optimal budget can realistically be attempted by the Commission in the current review and which should be left for the future.

Section 2 details the methodology proposed. It describes the four areas of academic research from which the methodology is derived and the twelve steps of the method. Section 3 then applies this method to the different policy areas. The section begins by selecting the areas to be analysed; each area is then assessed in detail using the twelve steps. The section closes by proposing how the EU budget should be spent. The conclusions highlights additional issues for reflection and further study.

2 METHODOLOGY

The methodology proposed combines different academic lenses so as to take into account all the aspects that are important when assessing the EU budget. Figure 1 shows the twelve criteria that should be used to assess whether a certain policy area or spending programme should be funded by the EU budget.

Figure 1 Criteria for EU funding



This section describes the criteria used in the analysis and the academic fields of study on which each criterion will be based.

A. Public sector economics

The first column contains criteria derived from concepts of *public sector economics*, the branch of economics that analyses the activities of government. While these theories underpin most public policies at national level, Figueira (2008) argues that they are often forgotten at EU level.

Step 1: Market failure or equity goal

Public economics considers that a government can intervene for two reasons: either to correct market failures (efficiency reason) or to ensure social justice (equity reason). If this reasoning is applied to the EU budget, we conclude that a budget line should only exist if it either:

- (i) corrects a market failure at EU level – that is, it will enable the internal market to function better (for example, grants to help mobility of workers), or;

- (ii) contributes to an EU equity goal (for example, helping the economic convergence of the poorest Member States through cohesion funds).

Step 2: Funding or regulation

If we conclude that public intervention is required in a certain area, it is then necessary to assess the type of intervention needed. The three main types of government intervention are funding, regulation and public production. Section 3 presents a selection of the areas of EU action that have potential funding implications; only these areas will be covered by the analysis.

However, this step is still necessary because most areas of government intervention involve both funding and regulation, and this distinction is important for assessing areas where EU action is considered useful regardless of whether that action should be in terms of funding or regulation.

Step 3: Cost-effectiveness

In addition, the spending programme must be cost-effective, in that its benefits must be greater than its costs. Moreover, the policy should meet its stated objectives efficiently.

B. Fiscal federalism

Fiscal federalism is the branch of economics that analyses which functions of a government are best performed at a centralised level and which are best performed at a decentralised level. When applied to the EU, these theories analyse which policies should be the responsibility of the EU and which should remain national. The main premise is that a policy should be conducted at a more central/EU level if this would make the policy more cost-effective.

To assess whether the EU level or the national level is more efficient, fiscal federalism looks at a number of factors; these factors constitute the next steps of the analysis.

Step 4: Externalities and economies of scale

Externalities occur when the activities of A lead to costs (or benefits) for B that A does not bear (or does not reap). For example, if a factory causes air pollution, the people living in the vicinity will be exposed to poorer air quality. However, the factory will not take that cost into account in its production decisions unless there are government regulations to this effect. Fiscal federalism says that if there are positive or negative externalities between EU Member States in a certain policy area, that policy area should be allocated at EU level. Hence policy-makers will be able to design the

policy so as to take into consideration its effects throughout the EU, while if it were to be placed at national level it would not necessarily address the potential effects on other countries.

Economies of scale occur when the cost of producing a good decreases if the good is produced in a larger quantity. For example, if an entire factory is used to build just two cars, each of those cars will cost a lot of money; but if the same factory builds a million cars, the cost of the factory equipment will be spread across the cars, and each individual car will cost much less. If there are potential gains from economies of scale, fiscal federalism says that a policy should be centralised.

Step 5: Heterogeneity of preferences

These two factors (economies of scale and externalities) are balanced against the fact that people in different countries have heterogeneous preferences. If those preferences vary significantly, the policy should not be centralised and each Member State can continue designing the policy to suit its own population.

Step 6: Second generation fiscal federalism

The recent literature known as “second generation fiscal federalism” (Oates, 2005), includes considerations of political economy by addressing political failure, that is, that governments, at any level, are not always benevolent welfare maximisers (they can be corrupt or inefficient, for example). In this second-best setting, allocating policies at different levels of government can be used as a way of choosing the level where political economy problems are fewer.

C. Political criteria

This study argues that, alongside economic factors, an analysis of the EU budget must address political issues. This is because the EU budget is different from a national budget for the following two reasons.

Firstly, it is much smaller. The EU budget represents only about 1 per cent of EU GDP, while a national budget amounts to about half of the country’s GDP. Therefore, the EU budget is not large enough to be allocated to all the areas in which EU public spending could theoretically be more effective than national spending – at least not on a scale large enough to allow it to have any significant impact. For this reason, a political choice needs to be made between the various areas in which the EU budget could potentially be more effective than a national budget. A decision must be made on what the priorities should be for the EU budget.

Secondly, for a political union such as the EU, the decision to centralise policies should be based not only on efficiency considerations but also on whether reducing national sovereignty over such policies is considered legitimate.

To reflect these issues, this study uses two types of analysis: a discussion of what EU budget objectives, considering Step 7, should be and a discussion of which policies are legitimate at EU level, based on the political science literature on the legitimacy of the EU (Steps 8, 9 and 10).

Step 7: Objectives of the EU budget

As has been argued, the EU budget is not large enough to be allocated to all the areas where it could in theory be effective. A decision therefore needs to be made on what the priorities should be, taking certain factors into account.

The EU budget as a bargaining tool

Although this argument is generally ignored by researchers and analysts, many believe that the EU budget should be used not as a way to complement EU policy-making but as a way to help secure political deals. This study argues that this approach is wrong – there is no justification for using over EUR 100 billion per year for this purpose.

Nonetheless, it is a valid consideration that political realities make parts of the budget difficult to reform. However, the goal of a study such as this is to suggest how the budget could best be spent, not how its reform could be accomplished with less difficulty. It is argued that the first step is to establish how the budget should be spent and the second step, which is outside the scope of this paper, is to suggest how the proposed reforms could be implemented given the political reality. Even so, this study will refer to political realities where relevant, without considering them as factors.

The EU budget as a tool to boost the EU's popularity

Another aspect generally ignored by researchers but widely accepted in policy-making circles is whether the EU budget should help make the EU more popular and/or more accountable and transparent.

It could be argued that, given the existence of the EU, the promotion of communication and democracy has become a public good. If this is seen as the reverse side of the coin, or the price to pay for the benefits of the EU, it could justify public intervention. However, it is necessary to distinguish between three different aspects of this issue: transparency/communication, EU popularity, and promotion of European identity and values.

Transparency/communication: It is argued that spending a small part of the EU budget on promoting communication and transparency is justified to ensure that citizens understand the EU and to reduce the democratic deficit. This could compensate for the decline in legitimacy caused by transferring spending to EU level. However, this should be done under the budget heading intended for this purpose, namely communication.

EU popularity: It is argued that spending part of the EU budget specifically for this purpose is unjustifiable. Taxpayers should not have to pay for the self-promotion of the EU institutions. Nonetheless, it could be argued that EU popularity could be a factor in choosing between different policies that could benefit from EU funding – choosing policies that people want at EU level would boost popularity and increase the legitimacy of the EU. This factor will be addressed in the analysis on legitimacy.

European identity and values: The promotion of the European identity, and of the image of the EU in the world, could be seen as factors to be covered by the EU budget, just as this type of concern also exists at national level.

However, at national level, no part of the budget is specifically allocated to promoting the image of the country. Instead, this is done via different policies, such as culture (as a way to promote tourism, preserve cultural heritage or promote the country's language), foreign affairs (improving the country's standing in the world) and local government spending (promoting different regions). As regards the self-promotion of the government, this is done via the funds allocated to political parties. The same should be done at EU level: the budgets for culture, foreign policy and other policies could include considerations of this kind.

In practice, it will clearly be difficult to differentiate between these three goals. Still, an effort to do so should be made as they should be addressed in different ways.

The EU budget as leverage

The EU budget cannot be assessed in isolation from national budgets for two reasons. Firstly, when deciding what should be financed at EU level, we are generally making a choice, not on whether a certain spending line should exist or not, but on whether it should be at the EU level or at the national level. Secondly, as the EU budget is very small, it can only be effective in conjunction with national spending – this is often called the “leveraging effect” of the EU budget.

For example, the reason EU cohesion funding has been so effective in several countries is that it has been accompanied in those countries by a

national strategy to improve the infrastructure for economic growth. Similarly, EU spending on research will be most effective if it is accompanied by national strategies to improve research policy, for example by providing monetary incentives for those improvements.

In this sense, the most important effect of the EU budget is not the actual spending programmes it finances, but the way in which its spending programmes impact national policy-making and national spending. Despite this, as Buti and Nava (2003; p. 2) point out, “the issue of coordination between EU and national budgets is an area left largely unexplored by the economic literature”.

The EU budget: allocative or redistributive?

Another issue to consider is whether the EU budget should mainly be used for redistribution between the Member States or for allocation policies. This study argues that the budget can be used for both those goals, but this requires a clear decision on which policies are aimed at redistribution and which are aimed at allocative efficiency. This is essential because policies can only be efficient if they target the right objective.

The Sapir Report (Sapir *et al.*, 2003) stresses the importance of making this distinction and respecting the principle of “one fund for one goal”. It proposed the division of the budget into three funds: one allocative – directed specifically at increasing economic growth – and the other two redistributive, one for the existing cohesion policy and the other for providing support to those affected by economic restructuring.

However, it could also be argued that the EU budget should not be used for redistribution and that Member States should receive from the EU budget an amount similar to what they pay into it – this is the argument of “juste retour”.

One solution would be for cohesion policy to be the only redistributive policy and for all the others to have no redistributive effects. Heinemann *et al.* (2008) suggest a “limited correction mechanism”, whereby Member States would be compensated from the redistribution effects of policies that are not aimed at redistribution. Although it is beyond the scope of this paper to discuss the financing of the EU budget, this suggestion shows that it would be possible to isolate the two effects.

The EU budget as a tool to improve the efficiency of public spending

According to most economists, the EU budget should be used to replace national spending whenever this can be done more cost-effectively at EU

level. This is the logic of fiscal federalism. However, this study argues that this consideration is essential but in itself insufficient.

Conclusion

From these factors, three main considerations not yet covered by other aspects of the multidisciplinary analysis emerge. These are: whether a policy area can/should contribute to promoting EU values or ideals, whether EU spending in the policy area has leverage effects and whether the reforms proposed are politically realistic.

Steps 8, 9 and 10

The next three steps are concerned with the legitimacy of financing policies at EU level. The concept of legitimacy is used in the political science literature to assess the rightfulness or acceptability of a government and its policies. This issue is highly relevant in the EU context and a growing body of literature is now examining the legitimacy of the EU and its policies.

The concept of legitimacy is by nature subjective and difficult to measure. For this reason the most recent literature attempts to tackle the complexity of the concept by looking at a combination of several factors (see, for example, Beetham, 1993; Lord and Magnette, 2001). Figueira (2007) identifies six main factors of legitimacy in the literature and suggests that three of these are particularly relevant for assessing the specific issue of which policies should be undertaken at EU level. These three factors are the next steps in this analysis.

Step 8: Public opinion

The main element of legitimacy is public acceptance. This cannot be measured entirely through a government's ratings in surveys or the rating of actions undertaken by the government. This is because, in representative democracies, governments do not always have to follow public opinion; on the contrary, it can be argued that governments should, when necessary, take unpopular measures if these are beneficial in the long term. However, measures of public opinion can and should be used for assessing legitimacy.

Concerning the issue at stake here, that is, which policies can legitimately be transferred to the EU level, the EU-wide Eurobarometer surveys are a very useful tool. The surveys include a question designed specifically to measure the opinion of people on which policies should be undertaken at EU level, often known as the "subsidiarity question". The answers to this

question in the 2008 Eurobarometer (European Commission, 2008a) will be used in this study as a proxy for public opinion.¹

Step 9: Procedural legitimacy

Procedural legitimacy measures whether the political processes followed by the government are democratic and accountable. This requires the holding of fair elections and free and equal competition for political office, and a system of political institutions that guarantees control mechanisms of political power. In the EU, the degree of procedural legitimacy varies greatly across policy areas due to different levels of integration, different legislative processes applied and some EU-level policies that are easier for citizens to follow than others.

Step 10: Normative justifiability

David Beetham (1991, 1993) argues that one of the conditions for legitimacy was normative justifiability, whereby “rules should be justifiable by reference to shared beliefs”. These beliefs are of two types: “beliefs about the rightful source of political authority” and “beliefs about the appropriate ends or purposes that the government should serve” (Beetham, 1993; p. 488-89.).

Beliefs about the appropriate ends or purposes of the European Union are of particular importance when analysing which policies should be undertaken at EU level. However, views on what these appropriate ends or purposes are differ from country to country and even from person to person. Therefore, an analysis based on normative justifiability will produce different results depending on which set of beliefs about the purpose of the EU is used.

Figueira (2007) proposes a set of beliefs that can be used to operationalise this concept. The proposal is based on the premise that the EU was created to prevent future wars and conflicts between its members, and this was to be achieved through the creation of a free trade area. It therefore had two main objectives: economic integration and peace in Europe. Although the EU areas of activity have increased since its creation, it can be argued that these are the only two objectives on which there is broad agreement that the EU should play a key role.

¹ Question A20a of Eurobarometer No. 68, Autumn 2007: “For each of the following areas, do you think that decisions should be made by the (NATIONALITY) government or made jointly within the European Union?”

These two objectives can still be subject to various interpretations. Economic integration can be seen either in its narrowest sense – a free trade area among Member States – or in its broadest sense – a complete harmonisation of economic policies, which in itself can be seen (or not) as justification for political integration.

The objective of promoting peace can also be seen in its narrowest sense – no action by the EU is required in this field because peace derives from the free trade area – or in its widest sense: the justification for a common defence policy, a common foreign policy and the harmonisation of Justice and Home Affairs policies.

D. Legal principles

Step 11: Subsidiarity

The EU Treaty also offers legal guidance on which competences should be at EU or national level. Under the principle of *subsidiarity*, which was added to EU law by the 1992 Treaty of Maastricht, the EU should only take action in areas where it can be more effective than the national governments.

Article 5 of the EC Treaty states:

In areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community.

This article was clearly written with the principles of fiscal federalism in mind; in essence it says that the competences of the EU should be determined according to the principles of fiscal federalism, except for the policies on which the Member States have given “exclusive competence” to the EU. The principle of subsidiarity therefore largely overlaps with the analysis of fiscal federalism. However, it adds to it in four ways:

First, it gives legal backing to the fiscal federalism analysis. Therefore, in addition to being a means of measuring the relative efficiency of policies at EU level, fiscal federalism has also become a way of measuring their legitimacy from a legal perspective.

Secondly, Article 5 EC excludes areas of exclusive competence from having to comply with the principles of fiscal federalism. However, this will not prevent us from using fiscal federalism to analyse these areas as well, since from a theoretical perspective it applies just as much to them.

Thirdly, Article 5 EC implies that in cases where the policy could be achieved equally well at EU level and national level, it should remain national. This was intended as a way to limit EU powers and prevent excessive integration. Several authors interpret this as meaning that a policy should only be centralised if it is clear that it would be more effective at EU level. For example, Persson *et al.* (1996; p. 1) interpret from this condition that “the burden of proof lies with the advocates of centralisation”.

Finally, it is worth noting that Article 5 EC refers to each “proposed action”, implying that the fiscal federalism analysis should be performed for each policy action individually rather than for the policy area as a whole. This connects with the point made above about the importance of the analysis being conducted this way.

Pelkmans (2006; p. 4) suggests a five-step test for applying the principle of subsidiarity in practice (Point 5 refers to the principle of proportionality, which is analysed separately in the following section):

1. Identify whether a measure falls within the area of shared competences (if exclusive to the EC, the subsidiarity test does not apply).
2. Apply the criteria (scale and externalities, Article 5 EC, and possibly other criteria) – this is the ‘need to act’ test.
3. Verify whether credible cooperation is feasible.
4. If 1 and 2 are confirmed, and 3 denied, then the assignment is to the Union level.
5. Define to what extent (proportionality) implementation, monitoring and enforcement should also be assigned to the EC level, or, indeed, can be assigned to the Member States, perhaps in a common framework.

For each policy, this section will look at whether the policy is an exclusive competence of the EU and at whether the fiscal federalism analysis has clearly revealed that the different policy actions could be better achieved at EU level.

Step 12: Proportionality

Article 5 EC goes on to say that:

Any action by the Community shall not go beyond what is necessary to achieve the objectives of this Treaty.

Hence, if the EU does intervene, the intervention should be proportional or limited to what is necessary to achieve the objective of the policy.

Conclusion for each policy

In the second part of the study, the methodology will be applied to the main areas of EU expenditure. For each of these areas, an analysis will be conducted based on the twelve steps outlined above. The findings will then help conclude whether or not a certain area of spending should be part of the EU budget.

3 APPLICATION TO POLICY AREAS

This section will apply the proposed methodology to the different policy-making areas to determine whether they should be funded by the EU budget and, if so, which parts of the policy area should receive the funding.

To apply the complete methodology to the EU budget, it will be necessary to first select the areas of public spending to be analysed and then apply the twelve steps to each area. This will show whether or not, on the basis of this assessment, a certain area of spending should be included in the EU budget.

3.1 Choice of policy areas

Most studies opt to take as a starting point the current structure of the EU budget and analyse each of the five headings of expenditure. However, this can result in an initial bias. As it starts from the current allocation of funding, the reasoning can be influenced by the current spending priorities. Moreover, it is argued that several of the EU budget headings are deliberately misleading; for example, the heading of “competitiveness” groups together policies that have little in common under the pretence that they all contribute to competitiveness in Europe.

This study will instead take as a starting point the areas of EU policy-making, identify those among them that involve public intervention in the form of spending, and use the resulting list as a starting point for the analysis. Given that the EU is now active in all the major areas of policy-making (although to varying degrees), it will be possible to look at all the areas of government intervention. However, to avoid the initial bias, the study will ignore the current extent of EU powers in each of those areas and regard them as equal.

It could be argued that the bias is useful because any reform of the EU budget will need to start with the existing budget. However, as explained above, the aim of this study is to find the optimal structure of the EU budget, not to find the easiest way to reform it.

The policy areas of the EU can be obtained by listing the departments, called Directorates-General, of the European Commission. These are:

- Agriculture and Rural Development
- Competition
- Economic and Financial Affairs
- Education and Culture
- Employment, Social Affairs and Equal Opportunities
- Energy and Transport

- Enterprise and Industry
- Environment
- Executive Agencies
- Maritime Affairs and Fisheries
- Health and Consumers
- Information Society and Media
- Internal Market and Services
- Joint Research Centre
- Justice, Freedom and Security
- Regional Policy
- Research
- Taxation and Customs Union
- Development
- Enlargement
- EuropeAid – Co-operation Office
- External Relations
- Humanitarian Aid
- Trade
- Communication
- European Anti-Fraud Office
- Eurostat
- Publications Office
- Secretariat General

In addition there are twelve internal services.

This report will not analyse the administration aspects of the EU since the aim of the study is to assess which policies should be located at EU or national level and not to assess how the EU runs its administration. All administrative, internal and non-policy related areas are therefore excluded from the analysis.

Furthermore, the study only analyses the areas that have considerable spending implications or where government intervention involves public funding. The following areas will therefore be excluded from the analysis: competition, economic and financial affairs, internal market and trade. It should be noted here that the EU does not perform stabilisation policies because its budget is too small to have an impact on the business cycle.

3.2 Application step by step

3.2.1 Agriculture

Short description

When the integration process started in the 1950s, Member States agreed to give up their national farming policies in favour of a Common Agricultural Policy (CAP). At the time, ensuring food security in Europe was seen as an important objective, and the CAP was considered to be the best way to ensure this. Fifty years later, this policy is controversial; as will be seen in the analysis that follows, its usefulness is being questioned by analysts and policy-makers.

These criticisms have led to successive reforms of the CAP but today it still represents 42 per cent of the EU budget.² This policy consists mainly of support for the farming sector. In the past, this support was mostly provided through market interventions, which made food production in the EU artificially competitive. Following reforms, it is now based mainly on direct transfers to the farming sector; these are considered less costly and less market distorting.

In addition, approximately one quarter of the expenditure is now directed at “rural development” policies that aim to preserve the countryside. Finally, about 1.5 per cent of spending goes to fisheries. Fishermen do not receive the extensive support received by farmers. The focus of the policy is not on fostering the competitiveness of this sector but on Member States’ access to fishing waters and, in recent years, preserving the environment and fish stocks.

Main results

The analysis that follows shows that no justification exists for funding agriculture at EU level as agriculture fails virtually every step of the test. Although there may be justification for government funding to support agriculture as a means to ensure the viability of rural areas, this policy should be located at national level, not at EU level. Moreover, it is designed, managed and implemented in a very inefficient way; it is likely that at national level these problems could be reduced. In addition, it is not transparent or politically accountable. For these reasons, it is advised that agriculture should no longer be an item in the EU budget.

² The percentages of current spending for each policy area were calculated on the basis of the Preparation of the 2009 Preliminary Draft Budget. They correspond to the actual spending in each area and not to the official headings of expenditure.

Box 1 Analysis applied to agriculture

Step 1: Market failure or equity goal

The initial justification for the Common Agricultural Policy (CAP) was twofold: to guarantee the security of food supply, and to create a common market in agriculture. However, the first justification is no longer valid, as EU Member States are now too wealthy for food shortage to be conceivable. Concerning the second justification, this would only require common regulations at EU level to dismantle the barriers to free trade, as is the case for other goods – it does not justify EU subsidies for agriculture. The CAP therefore no longer addresses any current market failures.

Concerning equity goals, there is no justification for the EU budget supporting only the workers in the farming sector and not those in other sectors; moreover, most of the funding is given to the largest and wealthiest farmers. Nunez Ferrer (2007; p. 16) shows that the CAP “benefits countries with the highest yields, and within those countries the larger – and often wealthier – farmers.”

However, defenders of the CAP argue that it is still needed to preserve the countryside in increasingly industrialised countries (European Commission, 1997). Accordingly, funding has been gradually transferred to “rural development” policies.

These policies have three official goals (European Council, 2006): firstly, the need to preserve the countryside, which implies finding a viable use for agricultural regions, either by making their agricultural production economically sustainable or by adapting them for tourism and preserving the environment; secondly, preserving the environment of the rural areas by promoting environmentally-friendly agriculture; and thirdly, restructuring the farm sector. This set of justifications is known as “multifunctionality” and refers to the benefits – other than food production – that agriculture provides.

The first reason implies a market failure: rural areas are a public good, and this could justify government intervention to maintain that public good. The second reason also implies a market failure: government intervention to protect the environment is justified because of negative externalities – damage to the environment caused by a farm has a negative impact on the entire population for which the farm does not pay. The third reason corresponds to an equity goal: helping farmers find other employment.

The three justifications for the CAP are therefore valid reasons for government intervention. However, as we will see below, this intervention should be by national governments and not at EU level.

Step 2: Funding or regulation

Government funding is justified in the case of a public good, such as the preservation of rural areas, to subsidise the production of a good from which society as a whole may benefit. As regards restructuring policies, government funding is also justified to help support people affected by restructuring. However, as for the environmental goal, the most appropriate instrument would be regulation.

Therefore, two of the goals of the CAP justify government funding but the following steps will show that this funding should be at national level.

Step 3: Cost-effectiveness

The CAP is highly inefficient at meeting its stated goals. Nunez Ferrer (2007) demonstrates that the goals of the CAP, as listed in Article 33 of the EU Treaty, are not met by the policy.

This low cost-efficiency is due to two main reasons: firstly, the policy targets the wrong goal because it was initially designed to meet the goals of security of food supply and, due to the difficulties in achieving reforms in this area, it was not sufficiently modified to reflect its new goals. Secondly, the fiscal federalism analysis will show that the situation of each country is different, so it is very inefficient to implement this policy at EU level.

Step 4: Economies of scale and externalities

There is wide agreement in the literature on fiscal federalism that agricultural policies should be handed back to national level (Breuss and Eller, 2004). Some authors even argue that there is no justification for a policy that funds agriculture, be it at EU or national level because this is a sector where EU countries have no comparative advantage (Hoeller *et al.*, 1996).

As seen in the previous section, public funding of agriculture in Europe could still be justified by multifunctionality (preservation of the countryside, preserving the environment of the rural areas and restructuring the farm sector). However, there are no externalities in the policies to maintain the national countryside, as these mainly affect national citizens and their territories. Nor are there economies of scale to be gained from a common policy to preserve the countryside as policies need to be differentiated to adapt to the different conditions of each country.

Step 5: Heterogeneity

At the same time, heterogeneity is high. Firstly, citizens have different views concerning the preservation of their countryside. While in some countries there is a strong willingness to maintain rural areas, even at a high cost, in others this concern is less important. A recent special issue of Eurobarometer focusing on agriculture found that 57 per cent of respondents in Finland considered agriculture and rural areas to be “very important” concerns, while only 31 per cent of respondents in Bulgaria gave the same answer (European Commission, 2008b).

Secondly, to be effective, these policies must target the specific region that they are meant for since they need to be adapted to the region’s potential; for example, some regions are viable as tourist destinations while others are not, or while agriculture can be economically sustainable in some regions this does not apply to all regions.

Step 6: Second generation fiscal federalism

Second generation fiscal federalism adds that there is a significant case of political failure in EU level agricultural policy as it has been captured by vested interests and lobbies in Brussels (Swinnen and Van der Zee, 1993); this offers a further reason to keep these policies at national level.

Step 7: Objectives of the EU budget

Although this section shows that the CAP should simply be phased out and totally renationalised, in practice this will be extremely difficult to achieve. This is because, at EU budget negotiations, each Member State attempts to obtain the largest share of the EU budget. Since the CAP represents the lion’s share of the budget, ending spending in this area will be opposed by all the countries on the receiving end. The CAP has therefore become the textbook case of a political failure at EU level; this policy is still in existence mainly due to the difficulty, given the present political setting, of reforming it.

This may have led some analysts to shy away from advising an end to the CAP, as they believe that it is not politically realistic to expect that it will ever happen. However, this study argues that the first step in reforming the EU budget is to assess how it should be spent, and only the second step should involve assessing which reforms are actually possible at this stage.

Moreover, by not advising the complete renationalisation of this policy, analysts give the mistaken impression that some elements of this policy actually need to be retained at EU level.

In addition, Szemlér and Eriksson (2008) show that policy-makers in all EU countries now expect that the ongoing review will result in a significant reform of the CAP. Therefore, the political climate may be ripe to achieve changes in this area and it is important to stress that changes, as far as possible, should be directed at renationalising the CAP.

Some countries regard the CAP as one of the pillars of the EU and part of its identity. However, this is by no means a feeling that is shared throughout the EU.

No positive leverage effects were identified.

Step 8: Public opinion

The Eurobarometer question shows that public opinion is mixed, with 53 per cent supporting EU action in this area. However, views differ widely among Member States. Contrary to what could be expected, differences in views do not reflect the extent to which countries benefit from EU funding for agriculture, but rather what role the EU should play in this area. For example, in Finland only 19 per cent of respondents thought that the EU should have a role in the area of agriculture, while in Denmark 72 per cent believed the EU should be active in this area.

Step 9: Procedural legitimacy

Accountability for this policy is clearly a problem at EU level now that the policy has been captured by lobbies (Swinnen and Van der Zee, 1993). Moreover, it is difficult for citizens to understand the complex rules and schemes of EU agriculture funding.

Step 10: Normative justifiability

EU agricultural policies are not normatively justifiable by the EU objective of achieving economic integration among its Member States. The single market would only justify regulatory policies such as those used for goods and services, but not the extensive programme of funding and supporting agriculture that is currently in place at EU level.

EU-level agricultural policies are not justifiable by the objective of promoting peace and security in Europe. The preservation of the countryside and the protection of the environment are not related to those objectives; nor is social protection of farmers or support for restructuring.

It could be argued that since the CAP is an EU policy, the EU should be responsible for phasing it out and supporting and compensating those who would lose out. This would make the policies justifiable from a normative perspective. However, the fact that a policy has been located at EU level is not in itself a justification for the EU level having to phase it out; this would be making the same mistake twice as phasing out can be best done at national level.

Step 11: Subsidiarity

Since the CAP is a common policy, from a legal perspective it should not need to fulfil the requirements of subsidiarity. However, as argued in section 2, this should not exempt policies from this analysis.

Step 12: Proportionality

Given that the objectives of the CAP are not actually being met by its policies, this criterion cannot be applied.

3.2.2 Cohesion policy

Short description

Cohesion policy aims to help the poorest countries and regions in the EU to catch up with the EU average and accounts for approximately 35 per cent of the total EU budget. This policy has two parts: cohesion funding – funds given to countries (Member States whose GDP is below 90 per cent of the EU average), and structural funding – funds given to regions. The Structural Funds receive most of the funding – approximately 80 per cent – and only the remaining 20 per cent goes to the Cohesion Fund (European Commission, 2009).

There are three Structural Funds: convergence funds, which benefit regions with GDP per capita below 75 per cent of the EU average (accounting for around 77 per cent of the Structural Funds); employment funds, which go to all types of regions, rich or poor, to promote employment (accounting for around 20 per cent); and territorial cooperation funds to promote cross-border cooperation through multi-country projects (accounting for only about 3 per cent of structural funds).

Main results

The parts of cohesion policy directed at the poorest Member States and aimed at increasing economic growth in those countries are justified, both by fiscal federalism (as this can be done efficiently at EU level) and by an analysis based on legitimacy (as promoting economic cohesion can be considered an EU function). Conversely, where cohesion funding is given to regions in the wealthier Member States and for goals other than promoting growth, this is not supported by the analysis.

This study would therefore advise phasing out the funds for regional competitiveness and employment (including the European Social Fund) and for territorial cooperation. There would be two options then. The first would be to adopt a “country focus” instead of a “regional focus”, by phasing out the Structural Funds (which go to regions) and using the amount saved to increase the Cohesion Fund (which goes to countries). The other solution would be to keep both the Structural Funds and the Cohesion Fund, but to earmark Structural Funds for regions in the less wealthy Member States.

Box 2 Analysis applied to cohesion policy

Step 1: Market failure or equity goal

The fiscal federalism literature generally justifies cohesion policy as the price for the single market, which itself is justified by fiscal federalism (Persson *et al.*, 1996). Two reasons are given for this: firstly, cohesion policy was created as a way to compensate for any potential negative effects of the single market on the poorest countries. Secondly, cohesion policy – by making the EU economies converge and more homogenous, and by making the EU on average more productive – benefits the single market.

However, concerning the first point, it is now clear that the poorest countries have benefited from European economic integration, so cohesion policy can no longer be justified on those grounds. On the second point, convergence of EU economies can indeed benefit the single market and so this effect, despite being indirect, can be seen as justification for the policy.

However, this paper argues that the main justification for cohesion policy is that of meeting an EU-wide equity goal: allowing poorer countries to catch up with the average, so that all Member States attain the same level of prosperity. This would justify claims that cohesion policy should benefit only the poorest countries rather than the poorest regions. The section on the political issues will analyse the desirability of this goal.

Step 2: Funding or regulation

This policy is based on funding. However, as will be argued in Step 7, the regulations attached to the funding can be as important as the funding itself.

Step 3: Cost-effectiveness

To date, the empirical literature assessing the efficiency of the EU Cohesion Policy has found mixed results (see, for example, de la Fuente, 2002). Nunez Ferrer 2007 argues that this is due to cost-efficiency being high in countries able to make the most of the Structural Funds by implementing effective planning and implementation procedures (for example, Spain and Ireland) and low in countries that were unable to do so.

Several authors argue that the policy could be made considerably more efficient by changing the current “regional focus” into a “country focus”. At present the poorest regions of each Member State receive funding and therefore even the richest EU countries receive funding for their poorest regions. This is undesirable as it would be more efficient if the richest Member States financed their own lagging regions. Therefore, cohesion policy can potentially be more efficient than it is at present (see, for example, Sapir *et al.*, 2003).

The issue of whether the European Commission should give money to national governments or regional governments can also be related to deeper questions about the role of the EU. It can be argued that the members of the EU are countries, not regions, and therefore money should go to national governments who would then decide how to distribute it. However, others may argue that the EU is responsible for its citizens and can therefore give money to any level of government. This debate goes beyond the scope of this study, but it is relevant to mention it as it will be part of any decision on this issue.

In addition, according to Nunez Ferrer (2007; p. 29) structural funds have suffered from the EU’s “pork-barrel approach to funding allocation”, as funding has often been given to countries for political reasons. He also points out that the auditing of the funding programmes should be improved to ensure that funding is being spent correctly.

Step 4: Economies of scale and externalities

By definition, cohesion policy must be undertaken at EU level. The question addressed by fiscal federalism, therefore, is not at what level this policy should be located, but how much, if any, EU funding should be dedicated to it.

Most of the fiscal federalism literature simply considers cohesion policy as necessary for the single market and therefore justifies this policy using the same arguments used to justify the single market. However, this report considers that this policy is meeting an equity goal and so the analysis is different.

Fiscal federalism cannot be used to assess the desirability of the equity goal of redistributing funds from the richest to the poorest countries in the EU, as this theory is only designed to measure relative efficiency. However, it can be used to assess whether the programmes funded by the Cohesion Fund could be more efficient if an individual Member State were paying for those programmes itself. When funding is allocated to poorer EU countries and allows for programmes that these countries would not be able to afford themselves, gains in efficiency can result. Conversely, wealthy EU countries would be best placed to fund their own policies.

Step 5: Heterogeneity

This does not apply here as the reason for a cohesion policy is precisely the fact that prosperity levels differ in and between EU Member States.

Step 6: Second generation fiscal federalism

This report argues that a second-best setting shows why it is best to fund programmes for infrastructure leading to economic growth at EU level. In the absence of cohesion funds,

governments will often allocate public spending to areas that are politically more rewarding than those needed to increase economic growth – both because they have more immediate positive effects and because they are more popular. Cohesion funds, with their requirement of being co-funded by the national budgets, will provide an incentive for national governments to put money into creating the right infrastructure for growth.

Persson *et al.* (1996) point out that cohesion policy suffers from a moral hazard problem, because countries and regions receive fewer funds as their GDP moves closer to the EU average.

Step 7: Objectives of the EU budget

Cohesion policy is a good example of the leveraging effect of the EU budget and, in some countries, has led to very good results in terms of improved economic growth; these are countries that have created a strategy to improve their infrastructure based on the EU funding (Nunez Ferrer, 2007). Therefore these results are due not so much to the money itself but more to how the availability of that money has led to countries refocusing their policy-making strategies.

As regards the promotion of EU values, cohesion policy is also the best example of “solidarity” between Member States, which can be considered one of the non-quantifiable objectives of the EU and its budget, and one of the ideals that the EU seeks to promote.

Concerning political realities, although the analysis has shown that cohesion policy should benefit only the poorest countries and regions in the EU, this reform will be difficult due to the principle of “juste retour”; countries expect to get back a fair share of the money they pay into the EU budget and therefore expect to benefit from this policy.

As for the possible use of the EU budget as a tool to make the EU more popular and visible, cohesion policy can be seen as a way to improve the popularity of the EU in the countries that benefit from it.

Step 8: Public opinion

The Eurobarometer survey indicates that 64 per cent of the EU population supports this policy at EU level. Again, great differences are found between the Member States, although less than for agriculture. For example, while in Cyprus 85 per cent of those interviewed supported EU policies to support lagging regions, in the UK only 56 per cent of respondents said they did.

Again, differences in views were not related to how much countries benefit from cohesion policy. For example, although the Netherlands is among the largest contributors to the EU budget in relative terms, it was also one of the strongest supporters with 84% of respondents in favour of the policy. At the same time, even though southern Italy benefits extensively from EU funding for regional policy, Italy was least in favour of EU action in this area, with only 53% supporting the policy.

Step 9: Procedural legitimacy

Although this is one of the most visible EU-level policies, there is considerable scope for greater transparency in the way projects are evaluated and audited (Nunez Ferrer, 2007).

Step 10: Normative justifiability

If cohesion policy could be justified by being a necessary condition for the successful single market, it would have normative justifiability according to the definition in this study. However, it was argued that this is not the case, as the justification is redistribution between the Member States.

It could be considered that since the objective of the EU is not the single market *per se* but prosperity in Europe, cohesion policy contributes to prosperity by stimulating economic growth in the regions and countries where it is implemented.

Step 11: Subsidiarity

Cohesion policy is not an area of exclusive competence of the EU and thus, legally, it must pass the fiscal federalism test. It was found that it is difficult to apply these theories to this policy because by definition it must be undertaken at EU level; however, a second-best analysis indicates the gains in efficiency associated with this policy.

Step 12: Proportionality

Not all cohesion funding is used directly for its stated objective, that is, enabling the poorest parts of the EU to catch up with the EU average. Clearly, the same objective could therefore be achieved with less funding.

3.2.3 Communication

Short description

The European Commission dedicates one of its Directorates-General to communication between the EU and its citizens. Its objectives are to inform people about the EU, to sound out public opinion on the EU and to make the EU more democratic by involving its citizens. In addition, although this is not explicitly stated by the Commission, it can be argued that this policy is also used as a means to make the EU more popular. The amount of funding dedicated to these activities is very small, corresponding to only 0.07 per cent of the budget.

Main results

Communication policy is justified at EU level but its efficiency is hampered by the difficulty of devising a single strategy for many very different countries. EU communication policy should be made more efficient by adapting it to each country. This report suggests keeping funding at the same (low) level but making better use of the funds.

Box 3 Analysis applied to communication

Step 1: Market failure or equity goal

As argued in Section 2 of this report, public intervention to improve the transparency of the EU and its communication with citizens is justified by a market failure: understanding of the EU by its citizens is a public good. However, this market failure justifies spending to make the EU more understandable, not more popular.

Step 2: Funding or regulation

Activities to communicate the EU require funding rather than regulation.

Step 3: Cost-effectiveness

Actions undertaken by the EU in this field have so far been inefficient, as shown by the continuing lack of understanding of the EU among its citizens. It is beyond the scope of this paper to look at how these activities could be improved, but spending in this area is clearly only justified if it yields results.

Step 4: Economies of scale and externalities

There are two issues to consider: whether communication policy is justified and whether it should be placed at EU level. While fiscal federalism could justify communication policy as a prerequisite for reaping the benefits of the EU, it is unclear whether it should be at EU level or national level.

There are clear economies of scale in allocating this policy to EU level as it then only needs to be undertaken once. Externalities are not significant, however, as the spheres of communication and media are separate in each country and thus a communication strategy in one country will generally not impact the other.

Step 5: Heterogeneity

Heterogeneity problems are considerable. In addition to language barriers, significant cultural differences mean that communication that works in one country does not necessarily work in another.

Step 6: Second generation fiscal federalism

At national level, politicians do not have an incentive to make the EU more transparent. In fact, the opposite may be true as they can then lay the blame for unpopular policies on Brussels. This would justify keeping communication policy in Brussels.

Step 7: Objectives of the EU budget

As argued in Section 2 of this report, spending a small percentage of the EU budget on improving citizens' understanding of the EU may be a justifiable way to make the EU more legitimate and democratic. However, spending to make the EU more popular is not justified.

It could also be argued that the communication policy of the EU should aim not only to improve transparency and democracy but also to promote European identity. However, not all would agree that this is a worthy goal.

This report will argue that funding for communication should stay at approximately the same level, which is politically realistic as maintaining the status quo is the easiest option.

Leverage issues are not relevant here as this is only an EU-focused policy.

Step 8: Popular opinion

The Eurobarometer's subsidiarity question does not include communication.

Step 9: Procedural legitimacy

The existence of a communication policy for the EU is precisely justified by reasons of procedural legitimacy. This is a policy that by nature seeks publicity and where accountability is not a problem at EU or national level.

Step 10: Normative justifiability

Communication is not one of the objectives of the EU but it could be regarded as the price to pay for the benefits we derive from the EU.

Step 11: Subsidiarity

The fiscal federalism analysis has not made a clear case for communication policy being at EU rather than national level.

Step 12: Proportionality

The funding needed to achieve these goals is proportionately very small since communication activities do not require as many resources as other areas of spending.

3.2.4 Consumer and health policy

Short description

Consumer protection is the other side of the economic integration coin as a single market requires common standards for the protection of consumers. At EU level, health and consumer protection form one policy area because health action focuses mainly on consumer protection from health hazards since health systems have remained national. Therefore, EU action on health is very different from national policy-making in this area.

In budgetary terms, consumer and health programmes amount to only 0.4 per cent of total EU spending. Most of this relates to consumer safety and public health, through EU regulatory agencies and scientific committees (approximately 0.3 per cent of the budget). Little more than 0.01 per cent of the budget goes to consumer education.

Main results

Some funding is needed to back the regulatory activities in this area and some very limited consumer education programmes that can be conducted efficiently at EU level. This study therefore proposes that funding should remain at the same level.

Box 4 Analysis applied to consumer and health policy

Step 1: Market failure or equity goal

Public health and safety are public goods, so they cannot be efficiently provided by the market; this justifies public intervention. Consumer protection is also justified by the market failure of imperfect information: if consumers are not well informed about products, they cannot make good decisions about what to buy and how much they are willing to pay for each product.

Step 2: Funding or regulation

These government interventions rely mostly on regulation to enforce health and safety standards, inform consumers about the products available to them and safeguard their rights when they are not satisfied. However, some limited funding is justified to finance the monitoring and prevention of health and safety risks. Funding is also required to finance consumer education initiatives and institutions to guarantee the protection of consumer rights although as noted later, this should mainly be at national level.

Step 3: Cost-effectiveness

The cost of these policies is low and EU action so far has mainly focused on regulation rather than funding.

Step 4: Economies of scale and externalities

Due to the single market, goods can circulate freely between the Member States. This justifies the centralisation of programmes to monitor health and safety standards in relation to food and other products. Moreover, the single market makes common standards for consumer protection necessary. The externalities, therefore, are very large.

Consumer education, however, would best be carried out at national level. Cultural differences need to be taken into account and the associations for consumer protection are national. For this reason, there is little justification for funding consumer education programmes at EU level.

Step 5: Heterogeneity

As no significant differences in preferences exist concerning health and safety standards, heterogeneity is not a problem. However, other aspects of consumer protection, such as information requirements, reveal large differences in preferences among the Member States (Figueira, 2007). Legislation in this area entails a cost for the industry and therefore the correct balance must be found; countries have different views on where that balance lies.

Step 6: Second generation fiscal federalism

If in some EU countries there is a sub-optimal level of consumer protection, EU action in this area could help solve that inefficiency.

Step 7: Objectives of the EU budget

Here also, defendants of a European social model could argue that this includes providing a high level of consumer protection in Europe but as seen above, the existence of such a model is debatable, as EU countries have very different social schemes.

Political feasibility is not a problem; this study advocates maintaining the current level of reduced spending.

Step 8: Political opinion

Public opinion is mixed, at 53 per cent, and once again reflects the disparity of opinion between Member States. In Cyprus, for example, 74 per cent of those interviewed want the EU to play a role in consumer protection while in Finland only 38 per cent do.

Step 9: Procedural legitimacy

This policy is very visible at EU level, partly as the EU uses it deliberately as a way to show that it is “on the side” of the consumers. For this reason, there are no major accountability problems.

Step 10: Normative justifiability

Common action in terms of health and safety standards is justified by the single market. Concerning other aspects of consumer policy, while they are closely related to the single market, this only justifies regulation to create a level playing field and not necessarily funding programmes.

Step 11: Subsidiarity

Funding programmes for public safety clearly pass the fiscal federalism test as they can be more efficient at EU level.

Step 12: Proportionality

The funding needed for these programmes is relatively very small.

3.2.5 Culture

Short description

The percentage of the EU budget dedicated to cultural policies is very small – only 0.24 per cent of the budget. The visibility of these policies is nonetheless often high because by their nature they are more appealing to the media.

Some of the funds go to a seven-year framework programme to fund and promote cross-border cultural projects as well as those seen to be promoting intercultural dialogue. Some funding is also directed at young people to promote their participation in civil society and their mobility throughout Europe. In addition, a programme called “Media” supports European cinema and television production.

Main results

There are only two justifications for keeping this funding at EU level: the second-best argument whereby funding is sub-optimal at the national level, and the European identity argument. Together, these two arguments could justify some very limited funding of cultural activities directly linked to promoting cultural exchanges or language learning. Therefore, this report suggests keeping funding at the current (low) level.

Box 5 Analysis applied to culture

Step 1: Market failure or equity goal

Government action on culture can be justified by a market failure: there are positive externalities since it can be argued that everyone benefits from a society with a high level of culture. Moreover, culture is linked to common values and to the cohesiveness of society.

Step 2: Funding or regulation

Intervention is mainly in terms of funding as governments subsidises artists and cultural activities.

Step3: Cost-effectiveness

The cost-effectiveness of public intervention in culture is by nature difficult to assess. However, it is clear that officials in Brussels cannot be best placed to allocate funding in this area in different national cultural scenes. Funding will thus be less efficient at EU level except in the case of cross-border programmes.

Step 4: Economies of scale and externalities

Member States have different cultural scenes that do not cut across borders. Therefore there are no significant externalities or economies of scale. An exception could be the mobility of artists and young people.

Step 5: Heterogeneity

Heterogeneity is very large as people in different EU countries have very different cultural tastes.

Step 6: Second generation fiscal federalism

If culture is considered to be under-funded in some EU countries, additional funding for culture at EU level would alleviate that problem.

Step 7: Objectives of the EU budget

It can be argued that EU action in this field is needed to promote European culture and ideals. However, this is controversial: while some see the EU as a union based on a common

culture and believe that the preservation and promotion of that culture is a worthy goal, others would oppose using EU money for this purpose. A solution could be to keep this funding low.

The proposal offered in this paper to keep this funding at its current very low level is politically realistic.

Step 8: Public opinion

The subsidiarity question does not include culture.

Step 9: Procedural legitimacy

Although culture is one of the areas where the EU seeks to publicise its activities, the accountability of these culture programmes can be lower than at national level; spending at EU level is generally less scrutinised than at national level, particularly when the sums of money are relatively small.

Step 10: Normative justifiability

Culture is not linked to either the single market or to peace in Europe, so it is not justified under this definition. Programmes that promote mobility are the exceptions.

Step 11: Subsidiarity

Culture is not a common policy so it must pass the test. It was shown that fiscal federalism does not support this policy at EU level unless we consider the second-best argument that it is under-funded at national level. Therefore, it cannot be said to clearly pass the test.

Step 12: Proportionality

The funding needed is very small.

3.2.6 Development policy

Short description

EU development policy is part of EU action on external policies and closely related to foreign affairs and trade policies. The current strategy underlying the policy is spelled out in the 2005 European Consensus for Development, a joint statement by the EU institutions and the Member States setting out the main objectives of EU development policy (European Commission, 2005). The Consensus identifies nine main areas of action: trade and regional integration; environment; infrastructure, communications and transport; water and energy; rural development and food security; governance, democracy and human rights; conflict prevention; human development; and social cohesion and employment.

Development policy accounts for approximately 2.7 per cent of the budget. In addition, Member States provide funding for the European Development Fund (EDF), which is outside the EU budget. The EDF amounts to EUR 22 682 million for the 2008-2013 period and is mainly allocated to the Africa-Caribbean-Pacific (ACP) countries; these are often countries with which some EU Member States have historical ties.

Main results

There is a contradiction between the analysis based on efficiency and the analysis based on legitimacy. While it is clearly more efficient to have a common policy for development, this is not clearly supported by normative justifiability as it does not contribute directly to peace and prosperity in Europe. Nonetheless, the policy is part of the EU foreign policy, which itself is closer to the EU objectives as defined in this study. Therefore, as the gains in efficiency from centralising this policy are very high, this report proposes a significant increase in spending on development.

Box 6 Analysis applied to development policy

Step 1: Market failure or equity goal

Development policies have an equity goal: solidarity between people in the EU and people in other countries. In addition, development policy also contributes to foreign and defence policy objectives as reducing poverty in developing countries can, for example, contribute to conflict prevention and the control of immigration flows.

Step 2: Funding or regulation

Development policy is essentially based on funding given to poor countries. However, as we will see below, conditions for funding are the most important factor.

Step 3: Cost-effectiveness

All aspects of EU foreign policy – including development policy – suffer from a generally recognised problem of a lack of coordination between different programmes and structures (Juncos, 2009); this makes the policies less efficient. In addition, the negative impact of the CAP on developing countries is more significant than the positive impact of development policies.

Step 4: Economies of scale and externalities

The literature generally advises allocation at the EU level for this policy for the same reasons that apply to foreign and defence policy.

Economies of scale are high as the success of development policy depends on it being a leverage for improvements in policy-making in the developing country. Therefore, if all Member States combine their assistance and their country strategies, their leverage will be higher and so will the chances of success. Working together also allows Member States to pool their experience.

Concerning externalities, if countries have different development policies and do not coordinate them, different strategies may well have unintended effects on each other. Common policies allow these externalities to be internalised, making the policies more efficient.

Step 5: Heterogeneity

Member States differ on which countries they view as priority countries, which is mainly due to different historical ties between countries. For example, some Member States may feel a duty to help countries that were formally their colony or countries that speak their language. However, there are also several regions that all Member States want to help develop and there is broad consensus on the type of development assistance seen as most cost-effective.

Step 6: Second generation fiscal federalism

If we consider that the funding dedicated to development at national level is insufficient, locating part of this policy at the EU level could help increase that funding. National spending on development is currently below the international commitments made at international conferences. In particular, countries are far from meeting their commitment to increase development assistance to 0.7 per cent of their GNP by 2015, part of the agreement on the Millennium Development Goals.

Moreover, locating this policy at EU level could allow it to be better implemented as it is separate from the national foreign policy objectives.

Step 7: Objectives of the EU budget

Development policy is not directly linked to economic integration. As it is part of foreign policy, it is related to maintaining peace in Europe but this link could be seen as too indirect to justify common policies.

Concerning political feasibility, this section will show that development funding should be significantly increased. However, such a proposal is likely to be opposed; firstly because it requires decreased funding in other areas, and secondly because just as governments are reluctant to meet their full international commitments at national level, they are equally likely to oppose meeting the commitments also at EU level.

Leverage effects are relevant for this policy – not for EU countries, but for the recipients of aid. The most important aspect of development policy is not the funding itself but the changes in policy-making that it leads to in the recipient countries.

Step 8: Public opinion

The Eurobarometer subsidiarity question does not include development policy.

Step 9: Procedural legitimacy

As development policy does not affect the citizens of the donor country directly, it is not as scrutinised by the general public as other policy areas; this can lead to less accountability.

Step 10: Normative justifiability

Development policy could be said to have a positive impact on the security of Europe since poverty is often at the root of conflict. This policy could therefore have a positive impact on world stability, which itself would benefit stability in the EU. However, this effect is very indirect. Therefore, development policy is not clearly supported by normative justifiability.

Step 11: Subsidiarity

The fiscal federalism test clearly shows that this policy can be more efficient at EU level than at national level, both according to traditional fiscal federalism due to economies of scale (as this policy is more efficient as a joint EU policy) and according to second generation fiscal federalism, if we consider that spending is sub-optimal at national level given that countries are not meeting their international commitments.

Step 12: Proportionality

Spending on development is currently low and this study argues that it should be increased.

3.2.7 Education

Short description

Analyses of the EU budget often group together education and research. However, these are two separate issues as evidenced by the fact that at national level they are often dealt with by different ministries. This study includes under the heading of education primary and secondary education, training and life-long learning.

The EU has so far intervened very little in the field of education. The main initiatives are programmes directed at promoting the mobility of students, the most well-known being the ERASMUS programme. Others include programmes for life-long learning and language learning. Funding in this area accounts for 0.7 per cent of the budget.

Main results

The analysis shows that funding for education at EU level is only justified if it is used for programmes to promote the mobility of workers within the EU or to promote language learning. As this is currently the case, it is proposed that funding should remain at the same level.

Box 7 Analysis applied to education

Step 1: Market failure or equity goal

Public intervention in education is justified mainly by an equity goal: ensuring that everyone has equal access to education. In addition, certain market failures make it difficult for the market to provide education, for example, capital market imperfections. In theory, families may borrow to invest in their children's education, but in practice they may not be willing to undertake such a commitment.

Step 2: Funding or regulation

Government intervention is based both on funding and regulation, and also on direct government provision of education, in the case of public institutions.

Step 3: Cost-effectiveness

Given that EU intervention has been so limited, it is hard to judge its cost-effectiveness. However, programmes for mobility are widely regarded as being successful (Sapir *et al.*, 2003).

Step 4: Economies of scale and externalities

The literature on fiscal federalism generally groups education with research, obtaining mixed conclusions. Given that education systems and traditions differ widely, in practice an EU-level policy would not lead to any economies of scale. In theory, however, there could be externalities as education influences growth and European economies are interlinked. But this effect is too indirect to justify centralisation.

However, for programmes promoting the mobility of people in Europe, externalities are significant due to the need for mobility of workers within the single market (Persson *et al.*, 1996).

Step 5: Heterogeneity

Heterogeneity is very significant as countries have different preferences and traditions as regards their education systems (Alesina *et al.*, 2001).

Step 6: Second generation fiscal federalism

The existence of programmes for education at EU level can help tackle the insufficient mobility of workers between EU countries. Programmes such as the existing ERASMUS programme (which finances university students who want to study in another Member State for up to one academic year) are particularly useful in this respect.

Step 7: Objectives of the EU budget

Language programmes and promoting intercultural exchanges can be considered part of promoting European identity. This can be seen as justification for these programmes being provided by the EU.

Step 8: Public opinion

Public opinion is clearly opposed to education policy at EU level; only 32 per cent of respondents favour any EU action in this area. Opposition was strongest in the UK, where only 16 per cent supported any EU intervention in education systems.

Step 9: Procedural legitimacy

If parts of primary and secondary education were transferred to EU level, people would probably begin to follow policy-making at EU level more closely as these are areas that affect them directly. It is therefore likely that procedural legitimacy would be high.

Step 10: Normative justifiability

Education is not directly related to economic integration or maintaining security in Europe. The exceptions, again, are programmes directed at mobility as they are directly related to economic integration.

Step 11: Subsidiarity

Education is not a common policy and therefore must pass the test. The fiscal federalism analysis does not support this policy at EU level except for programmes promoting mobility.

Step 12: Proportionality

It was seen that funding education at EU level is only justified if it is directly aimed at mobility and possibly also directed at language learning and promoting intercultural skills. The existing programmes in these areas require little funding.

3.2.8 Employment and social affairs

Short description

These policies have been mainly national policies. At EU level, most action has involved coordinating national policies and ensuring a level playing field, which is seen as desirable due to the free movement of people in the EU. However, there is also a limited amount of funding at EU level.

The PROGRESS Programme (Programme for Employment and Social Security) and the Globalisation Adjustment Fund – used in cases where people are made redundant due to structural changes – together amount to only 0.5 per cent of the budget. However, in addition to this limited spend-

ing, cohesion funding includes the European Social Fund (ESF), which is considerably larger in terms of funding implications (7.9%).

Main results

This section will show that spending on employment, social affairs and health is not justified at EU level and also that existing programmes are inefficient. However, there is a strong ideological conviction in some countries that EU economic policies must be complemented by social policies at EU level. This implies that it would be politically unrealistic not to have them. Nonetheless, this issue can be solved partly through “soft” policies such as schemes to compare Member States’ policies and voluntary coordination.

Therefore the proposal is to reduce spending in these areas to a small operational amount, to support the voluntary coordination of national policies and a limited number of programmes needed to complement EU level legislation. Concerning the European Social Fund, it should be phased out and replaced by additional funding for other, more efficient, cohesion funds.

Box 8 Analysis applied to employment and social affairs

Step 1: Equity or market failure

These policies have equity as their main aim: redistributing funds from wealthier to poorer people, and ensuring that everyone has access to certain services and to a certain standard of living. However, they can also target market failures, providing goods that are not sufficiently provided by the market and promoting full employment.

Step 2: Funding or regulation

These policies have large funding implications and represent the largest share of spending at national level. However, regulation also plays a major role, including trade union laws, salary negotiations and labour laws regulating the mechanisms for hiring and firing workers. Moreover, at EU level, soft law has played a major role in this policy, allowing Member States to compare policies.

Step 3: Cost-effectiveness

Due to the large differences between the EU countries’ economic and social systems, it is more efficient to run these policies at national level (Sapir, 2005). In particular, the cost-efficiency of the ESF is clearly sub-optimal as the European Commission is not best placed to manage employment programmes at national level.

Step 4: Economies of scale and externalities

Fiscal federalism theory would normally recommend the centralisation of social and employment policy (Musgrave, 1959). This would eliminate tax competition between the jurisdictions, the idea being that since people can move between jurisdictions, they would move to where taxes are lowest. This would lead to a “race to the bottom” as jurisdictions compete to have the lowest taxes. This can be considered an externality because it is an effect that a policy in one jurisdiction has on other jurisdictions. However, this problem is not relevant in the EU because mobility of people between countries is very low (Hoeller *et al.*, 1996).

Further, providing social security at a centralised level can be considered more efficient because it allows for a pooling of risk: if economic conditions worsen in one jurisdiction, requiring more social security payments, this could be financed by other jurisdictions where economic conditions are better. However, this would only be relevant in the EU if the EU budget were much larger.

Regarding policies for retraining workers and helping them find employment: although a positive externality is involved because high levels of employment strengthen growth which also benefits other countries, this effect is very indirect and does not compensate for the large heterogeneity problems involved.

Step 5: Heterogeneity

The literature generally advises that these policies be kept at the national level mainly because of the heterogeneity of preferences. EU countries have different preferences concerning social security provision, due both to different economic conditions and to different views on the role of the state.

Step 6: Second generation fiscal federalism

Second generation fiscal federalism also advises that these policies be kept at national level. Under the current political system in the EU, it would be difficult to have centralised decision-making on this issue as all funding at EU level is subject to negotiations in which each country focuses on getting as much funding as possible from the EU. On the other hand, Persson *et al.* (1996) argue that labour market regulations are often excessive in EU countries due to the influence of unions, so any tax competition could actually have a positive impact by bringing down the level of regulations.

Step 7: Objectives of the EU budget

It is often argued that the promotion of social equity is part of EU ideals; the EU can be seen as the promoter of a “European social model” where, unlike the US, social protection is more prevalent. It can also be argued that the prosperity derived from EU economic integration can only benefit society if it is combined with social policies to ensure that everyone benefits from that prosperity.

This paper disagrees with these two points. Concerning the “European social model”, the social security systems of EU Member States are in fact extremely different – their only common characteristic is that they all offer more social protection than the US system. In practice, it is only possible to talk about European social models in the plural (Sapir, 2005). The differences are so large that it would be impossible to implement social policies at EU level without having to ignore the views of a great number of people.

Concerning the second point, it is true that EU economic policies must go hand in hand with social protection, but social protection can be best provided by each country at national level. Instead of transferring money for social policies to be implemented at EU level, countries can keep that money and spend it on social policies to balance the economic changes caused by the EU and do so in a way that is adapted to the needs of the country.

However, the debate on whether social policy should be an EU level policy is highly ideological. Although the analysis has shown that it would be more efficient and more legitimate to keep funding of social policies at national level, many would argue that since the EU has a role in altering the economic structure of the Member States, a social policy must come with it. France, for example, regards social policy as an essential part of EU activity.

This explains why, despite very limited EU action in this field, a number of high-profile policies give the impression that the EU is highly involved in social policy. One example is the Globalisation Adjustment Fund. This fund can be seen as a way for the EU to show that its activities in terms of trade and free markets are balanced by support to those affected by economic restructuring.

Step 8: Public opinion

Public opinion is very largely opposed to transferring welfare policies to the EU level. According to the Eurobarometer survey, only 34 per cent of the population support having some aspects of social policies at EU level. The estimate falls to 24 per cent for policies regarding pensions. This may reflect a wish to retain control over policies that affect citizens most directly. It may also be related to the fact that citizens are generally not comfortable with the thought of transferring too much of their tax money to EU level.

This opposition is strongest in the Nordic countries, probably because their social models differ substantially from those of other EU countries and they do not want the EU to alter them.

Step 9: Procedural legitimacy

As in the case of education, it is suggested that accountability would be high at EU level as these areas are followed closely by citizens since they affect people's daily lives. On the other hand, these are areas where a very high degree of procedural legitimacy is demanded, and even more if they were at EU level.

Step 10: Normative justifiability

Social policy is not directly related to either the single market or to ensuring peace and security in Europe. The exceptions are aspects of social security related to the mobility of workers, such as social security arrangements regarding the possibility of transferring pensions from one country to another, for example. However, these have mainly regulatory rather than spending implications. In addition, as seen above, some would argue that social security is the other side of the single market coin; this paper argues that this other side of the coin does not need to be at EU level but rather at national level.

Step 11: Subsidiarity

These policies are not exclusive competences of the EU and therefore must pass the fiscal federalism test. This test was not conclusive for the EU and in general indicated that these policies should remain at national level.

Step 12: Proportionality

It can be concluded from the previous steps that only a small amount of funding is required to fund programmes that allow the comparison and voluntary coordination of national schemes or that support legislation in this field.

3.2.9 Enterprise and industry

Short description

This policy area focuses on a country's industry and includes promoting the productivity of firms or helping certain sectors and small businesses. At EU level, this policy includes both support for SMEs and ensuring that the internal market is working well for specific sectors. Funding amounts to only 0.2 per cent of the budget.

Main results

EU-level support for SMEs can have a positive effect in compensating for the sub-optimal provision of private and/or government funding in some EU countries. However, several policies can be implemented more efficiently at national level. Nonetheless, current funding is very small and

results could potentially improve if it were increased. Therefore this report advises only a moderate increase in current funding.

Box 9 Analysis applied to enterprise and industry

Step 1: Market failure or equity goal

Public intervention in this area is justified by market failures. In the case of promoting productivity and competitiveness, there is a positive externality as intervention can potentially benefit not only the companies concerned but all companies and society as a whole. In the case of helping small businesses, specific market failures need to be addressed, such as imperfect credit markets that make it difficult for businesses to obtain credit.

Step 2: Funding or regulation

This policy involves both regulation and funding. Regulation at EU level focuses on creating a level playing field for industry in Europe. Funding is also justified to compensate for market failures (for example, grants for SMEs).

Step 3: Cost-effectiveness

Nunez Ferrer (2007) argues that this policy should be made more efficient by focusing on countries that have a sub-optimal provision of funding for SMEs, as in the others it would be best to use national funds and private finance.

Step 4: Economies of scale and externalities

No economies of scale can be achieved by locating this policy at EU level; the national level ensures its efficiency. Externalities are not significant.

Given the existence of the single market, support for industry should be harmonised to achieve a level playing field. However, this only justifies common regulations but funding could be national.

Step 5: Heterogeneity

Heterogeneity is not significant as EU economies are similar and therefore have similar needs in terms of industrial policy.

Step 6: Second generation fiscal federalism

A second-best setting can justify EU-level intervention; for example, if funding for SMEs is insufficient at national level this can be compensated by funding at EU level.

Step 7: Objectives of the EU budget

SME policy at EU level can have a positive leverage effect when it leads national governments to improve their policies in this area.

This policy is not related to EU values. The proposal in this paper, to keep funding stable, is politically realistic.

Step 8: Public opinion

Enterprise policy is not mentioned in the Eurobarometer subsidiarity question.

Step 9: Procedural legitimacy

This policy is visible and transparent.

Step 10: Normative justifiability

It can be considered that the promotion of industrial competitiveness is related to economic integration. However, the single market only requires providing a level playing field, not common funding programmes.

Step 11: Subsidiarity

This is not a common policy. The fiscal federalism analysis shows that this policy can be best undertaken at national level, except for in countries where this policy is currently sub-optimal.

Step 12: Proportionality

Given that EU intervention here is mainly justified to compensate for sub-optimal provision of funding for SMEs in certain Member States, the optimal level of funding in theory is equivalent to the size of the gap to be filled.

3.2.10 Environmental policy

Short description

Spending on the environment at EU level is very limited at present and accounts for only 0.2 per cent of the budget. Most of the spending goes to the LIFE+ financial instrument, which finances projects and technologies to protect the environment and deal with climate change. Funding also goes to the European Environmental Agency. However, funding for environmental policies also comes from other sections of the budget, mainly cohesion funding and research.

Main results

This study proposes increased funding for environmental issues that are international and common to all Member States (and thus where large gains in efficiency can be made through cooperation) as opposed to mainly local or national issues where heterogeneity in preferences will be high.

However, it is argued that it is more efficient to earmark other areas of the budget so that they target environmental goals rather than significantly increasing the spending on environmental policies. Only a moderate increase in spending is advised.

Box 10 Analysis applied to environmental policy

Step 1: Market failure or equity goal

Environmental policy is justified by a market failure: negative externalities. When a factory causes pollution, this has a negative impact on society for which the factory does not bear the cost. Moreover, a clean environment can be considered as a public good, as it is non-rival (one person benefiting from it does not reduce another person's benefit) and non-excludable (we cannot charge people for benefiting from it, as we cannot exclude those who have not paid the charge). Therefore, it must be provided by the government.

Step 2: Funding or regulation

Environmental policy should include both funding and regulation. Regulations can be used to ban or limit activities that damage the environment, or to make those who are causing damage to the environment bear some of the cost. Funding can be used, for example, to subsidise technologies that have a positive impact on the environment. In addition, taxation

plays an important role as governments can use taxes and tax exemptions to incentivise companies to use less polluting technologies.

Step 3: Cost-effectiveness

Spending programmes with international implications can be efficient at EU level but programmes dealing with local issues add less to the national activities (Hoeller *et al.*, 1996).

Step 4: Economies of scale and externalities

Traditional fiscal federalism defends the centralisation of environmental policies due to the existence of large negative externalities among the Member States. Environmental policy is the classic example of a policy with externalities, as many environmental issues (for example, climate change and air and water pollution) are transnational in character. However, several other problems are not subject to externalities, such as the preservation of certain areas within a country or urban pollution. These externalities are not only constituted by the environmental effects themselves but by distortions to the single market caused by different environmental standards.

Step 5: Heterogeneity

There is large heterogeneity in the preferences towards levels of environmental protection (for example, while in some EU countries the environment is one of the population's main concerns, in others it is a less important issue). The importance given to the preservation of the environment, and the willingness to pay for it via taxes, varies widely across the EU.

Step 6: Second generation fiscal federalism

In areas where national environmental policies are not efficient, cooperation could lead to gains in efficiency.

Step 7: Objectives of the EU budget

Some would consider that a high degree of environmental protection is part of the European social model. However, as mentioned above, the notion of there being a European social model is highly debatable.

The proposal of this study, to increase funding in this area only slightly but to earmark funds in other areas, is politically feasible.

Concerning leverage effects, cross-border cooperation on environmental protection could help spread best practices and make policies more efficient.

Step 8: Public opinion

Public opinion strongly supports an environmental policy at EU level (64% of respondents). This may be due to the perception that environmental issues are transnational and should be tackled jointly. Views on this differ very little between the countries.

Step 9: Procedural legitimacy

Environment is a policy area that is generally understood by people and followed by the media so it is likely that the same would happen at EU level. Some environmental issues attract a great deal of media and public attention (for example climate change) while others do not (for example soil and marine pollution).

Step 10: Normative justifiability

Concerning normative justifiability, environmental policies are related to the single market only in cases where there is a need to have a common regulation at EU level, because if each country has its own different regulation it would create an obstacle to cross-border trade under the single market. For example, harmonisation at EU level on the types of chemicals allowed in products is justifiable under this definition but regulations on the protection of animal species are not.

Environmental policy is not related to peace and prosperity in Europe, except in the case of environmental threats. If climate change is seen as a security threat, this could justify common action in this area.

The legitimacy analysis therefore complements the standard analysis by suggesting that environmental policies should generally only be transferred to the EU level if they are directly related to the single market.

Step 11: Subsidiarity

Environmental policy is not an exclusive competence and therefore must pass the fiscal federalism test. The test shows clearly that environmental policy can be more efficient in areas involving international cooperation, such as climate change, but in other areas this is less clear.

Step 12: Proportionality

Spending on the environment is currently very low at EU level. However, as seen in Step 2, government intervention in this area consists largely of taxation and tax breaks to affect the incentives of companies; this must be done at national level. Moreover, other parts of the EU budget contribute to environmental goals, such as research on the environment and part of the Structural and Cohesion Funds.

Figueira and Nunez Ferrer (2008) propose that other areas of the budget should be earmarked so that they take into account environmental constraints. This is politically easier than increasing spending on the environment. It could also be more efficient as it can be more useful to ensure that all government policies provide the correct environmental incentives rather than to create costly programmes. Adelle *et al.* (2008) also show that the positive effects of the EU programmes that support environmental measures are diminished by the existence of other EU programmes that have a negative impact on the environment.

Nonetheless, it would also be advisable to increase funding for environmental issues that are international and common to all Member States (and thus where large gains in efficiency can be made through cooperation) as opposed to mainly local or national issues where heterogeneity in preferences will be high.

3.2.11 External relations

Short description

The activities of the EU in external relations are of three main types: defence, relations with other countries (including diplomacy and help to non-developing countries) and development. In this report development is analysed separately. The total amount (excluding development) accounts for approximately 2.7 per cent of the budget.

EU budget spending on defence is very small, accounting for only 0.13 per cent of the budget. However, most of the EU's common initiatives on defence are in fact funded outside the EU budget by agreements between the Member States.

Concerning relations with third countries, the largest share of spending goes to the EU Neighbourhood Policy, the part of foreign policy directed at the countries neighbouring the EU. The second largest share goes to

pre-accession assistance, or financial support for countries in the process of applying for EU membership. These include Croatia, Turkey and Macedonia. The remainder is spent on diplomatic relations with other countries.

Main results

Ideally, given the potential for large gains in efficiency from economies of scale, spending on external relations, and particularly defence, should be significantly increased. However, the reality is that to have common programmes, Member States would need to agree on common policies, and at present their views on several issues differ considerably.

Nonetheless, even in the areas the Member States have already agreed to cooperate on, funding needs to be increased so that existing programmes can receive sufficient resources. Therefore this study proposes that the share of the EU budget dedicated to external relations and defence should be increased significantly.

Box 11 Analysis applied to external relations

Step 1: Market failure or equity goal

Public policy for external relations addresses a market failure as this policy cannot be provided by the market: it is a public good since it is non-excludable (people cannot be excluded from benefiting from the country's defence and external policy, therefore they cannot be individually charged for it) and non-rival (one person benefiting from a country's defence policy does not diminish the benefit to others).

Step 2: Funding or regulation

The policies for the EU's immediate neighbours and future EU members have funding implications as they involve help to those countries. Common policies for defence could potentially have large funding implications if the Member States decide to further their collaboration in this field. As for other foreign policy activities, the potential creation of an EU diplomatic service would have funding implications. Other activities are based on regulations to centralise decision-making.

Step 3: Cost-effectiveness

Given that spending on external affairs and defence at EU level is currently very low, it is difficult to comment on its potential cost-effectiveness. However, a generally recognised problem is the lack of coherence in these policies due to an unclear division of responsibilities among the different bodies and committees dealing with foreign affairs and defence at EU level (Juncos, 2009).

Step 4: Economies of scale and externalities

Traditional fiscal federalism holds that defence policies should be centralised to benefit from economies of scale: by pooling their resources, Member States could make their defence systems more efficient and save money by avoiding duplication (Hoeller *et al.*, 1996). There are also economies of scale in the areas of foreign policy not directly related to defence because by pooling their efforts Member States can improve their standing in the international arena. Concerning relations with so-called "neighbourhood countries", EU countries can also

assert a much greater influence if the 27 Member States deal with neighbouring countries as a single entity.

Step 5: Heterogeneity

The heterogeneity problem here is substantial because Member States have very different preferences in the area of defence. For example, some countries are “neutral” while others are members of international alliances. The solution generally advised by the literature is to pool only the resources of the least sensitive areas (Alesina *et al.*, 2001).

Step 6: Second generation fiscal federalism

Second generation fiscal federalism adds that there is a political failure at EU level that would justify keeping this policy at national level: the incentive to free ride. Some countries could choose to benefit from other countries’ spending without spending themselves (Persson *et al.*, 1996). However, the authors conclude that, nevertheless, the best solution is to further integrate the policies while being careful to avoid this problem.

Step 7: Objectives of the EU budget

Although this section will argue for additional spending on foreign policy, in practice this will be resisted. Firstly, because as with justice, freedom and security, more spending in this area would imply either an increase in the total budget or a decrease in other areas such as agriculture, and secondly, because governments are reluctant to surrender their sovereignty in this area.

The main role of EU foreign policy is to maintain peace and stability within the EU territory through good relations with other countries and by promoting peace and stability in the rest of the world. However, a less explicit goal of national foreign policy is to promote the nation’s ideals in the world. At EU level, it is questionable whether this is an objective, given that the Member States differ in the ideals that they want to export. However, Smith (2008) argues that the EU is in practice already promoting a set of ideals and even a “grand strategy” through its foreign policy.

Step 8: Public opinion

Concerning public opinion, the Eurobarometer subsidiarity question shows very wide support for defence and foreign affairs at EU level (64 per cent). This may be due to the perception that, due to the relatively small size of EU countries, joint efforts will make EU countries safer and more powerful in the international scene (economies of scale).

Step 9: Procedural legitimacy

Defence is an area where, even at national level, decisions are often made out of the public eye and/or without regard to public opinion. This is due to the need for confidentiality of information and to reasons of diplomacy and relations between countries, which often lead governments to ignore public opinion. Therefore, this is an area in which national governments have a considerable leeway in making their decisions. While citizens accept a lower level of accountability in this policy area at national level, it is likely that they would find this less acceptable at EU level.

Step 10: Normative justifiability

Concerning normative justifiability, defence and foreign policies are related to the objective of achieving an area of peace and security in Europe. However, “peace” was originally understood mostly as internal peace – avoiding wars and conflicts between Member States. Moreover, this was to be achieved through the integration of economic interests. Therefore, if we take the narrow definition of this objective, a common foreign policy is not justified.

If we take a wider definition of this objective, we can conclude that there are legitimate reasons for harmonising foreign policy and defence policy, at least in the areas most related to achieving a climate of peace and stability in Europe. For example, external policies that contribute to fighting international terrorism could potentially have a great direct impact on

the security of EU citizens. Conversely, general foreign policy and diplomatic relations with other countries are only indirectly related to security within the EU and there is therefore less justification for action at EU level.

The analysis based on legitimacy therefore adds to the analysis based on fiscal federalism the conclusion that there should be greater centralisation at EU level of the aspects of foreign and defence policy most directly related to ensuring security within the EU, and where problems of accountability are lower. This should be combined with the conclusion from first and second generation fiscal federalism, that the areas where heterogeneity of foreign policy does not cause a problem should be centralised to benefit from economies of scale. This implies that the Member States should centralise at EU level the areas where they have similar approaches, especially to deal with concrete security problems.

Step 11: Subsidiarity

This is not a common EU policy so the test must be passed. The fiscal federalism analysis is not conclusive for most areas as on the one hand there are large economies of scale but on the other hand there are heterogeneity problems.

Step 12: Proportionality

It is, of course, difficult to identify the areas where the Member States have similar or divergent views – particularly as this will vary constantly – and therefore it is difficult to determine the ideal level of cooperation. A solution that is being increasingly considered by the Member States is to allow a core group of countries to step up cooperation in some areas.

3.2.12 Justice, freedom and security

Short description

As its name indicates, EU action in this field is divided into three main strands: justice, freedom and security. Freedom includes free movement of persons, border controls and immigration and asylum. Security includes the fight against crime and cooperation between national police forces. Justice concerns judicial cooperation. Most of the spending is in the area of freedom, particularly border controls and immigration policy. Total spending amounts to 0.6 per cent of the budget.

Main results

The analysis leads to the conclusion that the share of the EU budget allocated to this area should be significantly increased as funding at EU level would be preferable in a number of areas both from the perspective of efficiency and legitimacy.

Concerning security, EU collaboration to fight international crime and terrorism is clearly necessary due to the opening of borders. Although coordination of policies and exchange of information play an important role, some programmes would be more efficient if funded and conducted at EU level. The EU already has the infrastructure for these common programmes in the form of agencies but these would need additional funding to play a more active role.

As for immigration, countries have very different preferences concerning conditions for legal immigration, how to deal with illegal immigration and methods of integration. However, with the opening of borders, cooperation is a necessity and therefore a common policy in this area has gradually developed. More funding would be needed to back this policy and in particular border protection programmes, information sharing on immigration and asylum and support for refugees. This report therefore proposes a significant increase in spending in this area.

Box 12 Analysis applied to justice, freedom and security

Step 1: Market failure or equity goal

Policies regarding the safety of citizens are justified by a market failure: safety is a public good. Any immigration policy must by definition be publicly provided. Due to the free movement of people within the EU, these policies have become EU-wide public goods.

Step 2: Funding or regulation

This area of policy-making is mainly based on legislation providing a common legal framework throughout Europe. However, considerable funding is involved in fighting illegal immigration (including protection of the common external borders and policing), refugee policy on refugees, integration of legal immigrants and police cooperation. The justice area, on the other hand, has no significant funding implications.

There is also EU intervention at a more superficial level that consists of coordination, exchange of information and comparison of methods and is clearly beneficial for all the policies involved.

Step 3: Cost-effectiveness

It is difficult to judge the effectiveness of these policies at EU level as they are currently at a very low level of spending.

Step 4: Economies of scale and externalities

Due to the opening of the borders between the Member States (following the Schengen Agreement), several policies now have such large externalities between countries that they have effectively become common to all Member States (they have become “EU public goods”). These include international crime, immigration and protection of the common external borders of the EU. The case for centralising those policies is therefore very strong.

Other policies, however, such as the justice system or national safety issues only impact on national or local level; they have by definition no significant externalities with other countries.

There are clearly important economies of scale to be gained from cooperating against international crime and terrorism, which reinforces the case to place these policies at EU level.

Step 5: Heterogeneity

In relation to immigration, heterogeneity problems are considerable as Member States have different preferences regarding immigration policies. In the areas of international crime and terrorism, heterogeneity problems are also present due to different police systems and different preferences in relation to the balance between civil rights and security.

Step 6: Second generation fiscal federalism

If policies such as border protection are centralised, there can be an incentive for certain

countries to free ride on others and not feel the need to undertake measures of their own as they are protected by the measures of others. However, this can be solved by mechanisms ensuring that the costs are shared fairly among the Member States (see, for example, Thielemann, 2008).

Step 7: Objectives of the EU budget

Promoting peace and security in Europe is seen by many as one of the EU's ideals. It is in any case, as we will see in Step 10, one of its main objectives, or even the primary objective.

However, although it has been shown that funding of justice, freedom and security should be increased, in practice this is difficult to achieve because it would imply either increasing the total budget – which would be opposed by most governments and citizens – or decreasing spending on agriculture and/or cohesion, which would also face opposition.

Concerning leverage effects, if countries collaborate in these areas, this will lead to spreading best practices, which could have a positive effect on the efficiency of policies at national level.

Concerning the potential of this policy to improve public opinion of the EU, it is high. Security is one of the main concerns of EU citizens and the EU would be more popular if it had a visible role in this area.

Step 8: Public opinion

The Eurobarometer does not include a question relating to home affairs in general but asks about individual policies: fighting terrorism, fighting crime and immigration. Public opinion is very supportive of policies to fight terrorism at EU level: 79 per cent believe that the EU should have responsibility for fighting terrorism. This is most probably due to the perception that this problem can only be tackled effectively at international level – a perception that large externalities are present. Support is lower, but still high, for fighting crime (61 per cent) and immigration (63 per cent).

Step 9: Accountability

Concerning accountability, these policies are among the most publicised at EU level as the Commission is aware of the fact that they include some of its most popular activities. Therefore there is a certain level of awareness of EU activities in this field, which makes them more accountable. However, this does not apply to all the aspects of these policies.

Step 10: Normative justifiability

These issues are closely related to the objective of peace within the EU territory. Moreover, the opening of the borders between the Member States is related to the movement of workers, which itself can be seen as part of the single market. Therefore they derive their legitimacy from both sources.

Step 11: Subsidiarity

This policy is not an exclusive competence of the EU so it must pass the test. The analysis based on fiscal federalism did make a very strong case that at least some aspects of these policies can be considerably more efficient at EU level.

Step 12: Proportionality

It was shown that areas of justice, freedom and security where very large externalities exist are clearly justified at EU level for reasons of efficiency because they can no longer be handled comprehensively at national level due to the opening of the borders. However, the extent to which they are harmonised should depend on considerations of heterogeneity and legitimacy.

3.2.13 Research policy

Short description

EU spending on research currently amounts to approximately EUR 6 700 million per year or about 4.9 per cent of the budget. The entire amount is spent under a Framework Programme negotiated every seven years.

The programme is divided into six categories. The biggest category, “Cooperation”, funds research projects. “People” awards scholarships and fellowships for researchers, “Capacities” funds research infrastructures and “Ideas” finances frontier research. The other categories are funding for the EU’s Joint Research Centre (JRC), a network of seven research centres across the EU, and the EURATOM nuclear research programme.

Main results

The analysis shows that funding research programmes at EU level can lead to large gains in efficiency due to significant economies of scale. However, to be effective, funding should be allocated on the basis of excellence by an independent agency. This could result in problems from a political perspective as wealthier countries are likely to benefit more than poorer countries. Nonetheless, due to the large potential gains in efficiency, this report advises substantially increased research spending and making research the second largest budget item after cohesion policy.

Box 13 Analysis applied to research policy

Step 1: Market failure or equity goal

The main justification for public intervention in research is a market failure: positive externalities. Research by one company leads to new technologies that can be used by other companies that did not have to invest in the research. Moreover, research and development is one of the main drivers of economic growth, which can benefit society as a whole.

Step 2: Funding or regulation

Positive externalities justify government funding of research so that the amount of investment in research is optimal for society. However, regulatory aspects are even more important, because most of the investment comes from private sources. Therefore, it is necessary that companies have a regulatory environment that provides the right incentives for them to invest in research.

This is particularly relevant in the EU. Nunez Ferrer (2007) shows that investment in research is sub-optimal at EU level, not from public sources but from private sources. Nunez Ferrer argues that this is partly due to problems in the regulatory environment, such as over-regulation and rigid labour markets.

Step 3: Cost-effectiveness

Figueira and Nunez Ferrer (2008; p. 24) offer a mixed assessment: “on the one hand, the Commission appears to be basing its policies on the right principles: the funding instruments were designed with the concept of EU value-added in mind.” However, “there are concerns

that the Commission is not the right body for project selection, and that it is influenced by political considerations.”

Step 4: Economies of scale and externalities

The literature on traditional fiscal federalism generally concludes that these policies should be at EU level due to the existence of economies of scale, as Member States can pool their research capacities and human capital and avoid the duplication of research (Hoeller *et al.*, 1996). This applies particularly to strategic research areas, where the EU needs to reach a critical mass through collaboration between Member States to be globally competitive.

Step 5: Heterogeneity

Heterogeneity is not a problem as EU countries have similar levels of economic development and therefore similar needs in terms of research.

Step 6: Second generation fiscal federalism

Persson *et al.* (1996) argue that since research institutions in European countries are inefficient and badly organised, harmonisation, by increasing competition between the countries, could increase efficiency.

Step 7: Political criteria

Concerning leverage, research is one of the areas where this effect is most important. Firstly, the existence of funding programmes at EU level is an important incentive for the mobility and cooperation of researchers. This leads to the creation of a Europe-wide research area since research in Europe becomes cross-border, instead of compartmented by country. A larger research area will be more productive as there will be less duplication of efforts and there will be effects of competition and comparative advantage. Therefore, even relatively little funding at EU level can have a substantial impact.

Another leverage effect of EU research policy is related to the fact that research policy at national level is not suffering from a lack of public funding but from inappropriate legislation. Hence the right funding programmes can provide incentives to make national policies more efficient.

Step 8: Public opinion

There is very wide support for EU action on “scientific and technological research”, with 72 per cent of the population thinking that the EU should be active in this field. This may be due to the fact that people support transferring to EU level policies where they feel that cooperation between Member States can lead to more efficient results. However, it is possible that support would be lower if funding for research was significantly increased because if funding is allocated on the basis of excellence, it will mainly be given to the wealthier countries which have more established research institutions. This could be resented by the poorer Member States.

Step 9: Procedural legitimacy

Concerning research policy, this is an area where governments often delegate part of the decision-making to an independent agency as decisions on which research to support can be made more efficiently if they are impartial and independent. When this is the case, having an independent agency at EU level or national level should lead to the same degree of procedural legitimacy. When this is not the case, it is possible that accountability is lower at EU level and there is a risk that this policy could fall prey to vested interests.

Step 10: Normative justifiability

Research policy is directly related to the single market in two ways. One is that research and development is an integral part of companies’ activities and therefore in a single market it is necessary to have a regulatory environment that allows EU-wide research. The other is that research at EU level fosters the mobility of researchers and the mobility of workers is needed for the single market.

Step 11: Subsidiarity

Research policy clearly passes the fiscal federalism test as it can be more efficient at EU level.

Step 12: Proportionality

Currently, EU spending on research is low and benefits would be gained by increasing the funds available.

3.2.14 Transport and energy

Short description

The Common Transport policy was introduced in 1958, as transport between countries was seen as being central to the single market. However, until some years ago, the action of the EU was very limited as Member States could not reach agreement on how to collaborate. Over the past few years, it has become increasingly active. The main goal is to promote inexpensive transport between the Member States by opening the markets and creating transport links.

EU energy policy has recently gained a high profile due both to environmental concerns and to energy security issues. The main action of the EU in this area is opening the energy markets of the Member States to competition. These two policies are managed together and several spending programmes are common to both.

Spending accounts for 1.87 per cent of the budget. It finances the Trans-European Networks (TENs), projects of international transport considered to be of strategic importance. Other programmes include the Galileo satellite system, the Marco Polo Programme for logistics, the intelligent energy programme and nuclear energy.

Main results

This report proposes a significant increase in spending mainly to finance TEN projects and energy grids. However, in addition to spending, more use should be made of innovative ways of financing transport projects, such as public-private partnerships.

Box 14 Analysis applied to transport and energy

Step 1: Market failure or equity goal

Transport and energy policies aim to correct a market failure of positive externalities. A good transport and energy network benefits the entire industry and, through its impact on economic growth, society as a whole. In addition, some infrastructures can be more efficiently provided by the government than by the market due to increasing returns to scale.

Step 2: Funding or regulation

This policy involves both funding and regulation. At EU level, (de)regulation is needed to open up the Member States' transport and energy markets and allow fair competition between them. However, funding is also needed to improve technologies and in particular to promote the interoperability of different countries' technologies. The question is whether it should be at EU or national level.

Step 3: Cost-effectiveness

The cost-effectiveness of the TENs is not optimal at present as the selection of projects to be financed is heavily influenced by political criteria rather than being carried out on the basis of value-added (Kernohan, 2006).

Step 4: Economies of scale and externalities

By definition, there are externalities in international transport and energy networks as they affect at least two countries. In the case of the EU, these are increased by the fact that having a common market enhances the need for a good transport system to carry goods between countries, so a good transport system benefits all countries. It may even be argued that, due to the single market, transport has become an EU public good. This is why transport policy has always been seen as a core EU policy.

However, this does not necessarily imply that the EU should entirely fund the transport infrastructures. Nunez Ferrer (2007) argues that it is not efficient for the EU to finance transport infrastructures in its wealthier Member States as this could be done better nationally. As regards poorer Member States, funding for transport is already included in the cohesion programmes.

Step 5: Heterogeneity

Despite differences between the infrastructures and technologies in different Member States, heterogeneity in tastes is not a problem, except for some environmental aspects of transport and energy and sensitive issues such as the desirability or otherwise of using nuclear energy.

Step 6: Second generation fiscal federalism

In Member States where public funding for transport infrastructures is insufficient, EU policy could help compensate for this.

Step 7: Objectives of the EU budget

Although this section has argued for more investment in transport, as with other areas this would imply reducing funding elsewhere. Issues of EU identity are not very relevant here.

Step 8: Public opinion

Public support for a common policy on energy is very high (68%). Conversely, support for a common transport policy is mixed (49%).

Step 9: Procedural legitimacy

There is a certain lack of accountability in the way that funds are allocated to projects. This could be improved if the selection followed better defined criteria related to the value-added of the projects.

Step 10: Normative justifiability

Transport policy is directly linked to the transport of goods in the single market.

Step 11: Subsidiarity

Fiscal federalism has made a clear case for a common policy on international transport and energy networks. However, it is not clear whether all the funding for these policies should come from the EU level.

Step 12: Proportionality

Spending on transport and energy accounts for only 1.68 per cent of the EU budget. This is very low considering that EU spending could be very efficient in this area. Kernohan (2006) argues that investment in TENs should be higher. In addition to spending, there should also be more investment in innovative ways of financing transport projects and public-private partnerships.

3.3 Proposal

The previous sections have shown that, for all the areas except one, at least some funding is justified at EU level. However, at the same time, the EU budget is very small. Some studies (such as the Sapir Report) have argued that, given the small size of the budget, funding should be allocated to a limited number of priority areas where it can be most useful. However, this study has shown that for most areas of EU policy-making at least some of the funding should come from EU level, as it goes hand in hand with policy-making. However, that amount of funding is generally very small.

This study therefore proposes selecting a limited number of main areas where the budget can be most useful, while allocating a small amount of operational funding to the others.

From the proposals made for each policy area in the previous section, the following structure can be derived:

- Cohesion policy should continue receiving the same share of the EU budget; this is, currently approximately one third of the budget.
- Agriculture should no longer be an item in the budget.
- Spending on research policy should be significantly increased and this should become, after cohesion policy, the second largest item.
- Four other policy areas should have their spending significantly increased: development policy; external relations; justice, freedom and security; and transport and energy.
- The following areas should receive only a small amount of operational funding: education; culture; social affairs and employment; enterprise; environment; consumer and health policy; and communication.

It is suggested that the EU budget should maintain its current size as it is sufficient to support the EU's essentially legislative activities. As this report does not assess administrative expenditure, it is assumed that it will remain the same.

CONCLUSIONS

This report applied a multidisciplinary analysis to the EU budget to find the optimal structure for its expenditure. Based on the analysis, a proposal was made on how the EU budget should be restructured. The proposal is to eliminate spending on agriculture, maintain spending on cohesion policy at one third of the budget, divide most of the rest of the budget between five policy areas (research, development, external relations, home affairs, transport and energy) and allocate budget lines inferior to 1.5 per cent of the budget to seven policy areas (education, culture, social affairs and employment, enterprise, environment, consumer and health policy, and communication).

This study went into much greater detail into each of the policy areas than the existing literature. However, further work is still needed to look at each spending programme in even greater detail so as to define more specifically how much should be spent on each, taking this proposal as a starting point. This would have been outside the scope of this paper, particularly due to space constraints.

Further research is also needed into the political economy of the EU budget to find how, given the existing political realities, this proposal could be adopted by the Member States. This would include determining which of the reforms proposed in this study should be attempted by the Commission in the current review and which should be left for future reviews.

A surprising conclusion of this study is that the EU budget should not reflect the priorities of the EU. This is because EU activities are mainly based on regulation and not on funding so a decision on whether to fund a policy at EU level should mainly be based on whether funding is needed to support the regulatory activities. Some very important EU policies do not require funding (other than for administrative costs), such as the single market or competition policy. Conversely, some policies – such as development policy – are not very important at EU level but funding is required on a larger scale to support the policy and is cost-effective at EU level.

The EU budget may be small in size but it plays a very important role in supporting the activities of the EU; it is essential therefore that it is spent correctly. The political reality of the procedures and negotiations at EU level makes it impossible to radically change the way in which the budget is spent in the immediate future. For example, it would be impossible to have no spending on agriculture in the next Financial Perspectives. However, incremental reforms are possible and the ongoing review can, and should, be a major step on the long road to giving the EU budget its optimal structure.

REFERENCES

- Adelle, Pallemarts and Baldock (2008), "Turning the EU Budget into an Instrument to Support the Fight against Climate Change", Swedish Institute for European Policy Studies (SIEPS) Report 2008:4 (www.sieps.se)
- Alesina, A., Angeloni, I., and Schuknecht, L., 2005, "What does the European Union do?", *Public Choice*, No. 123, pp. 275-319
- Beetham, D., 1993, "In Defence of Legitimacy", *Political Studies*, vol. 41, no. 3, pp. 488-491
- Beetham, D., 1991, *The Legitimation of Power*, Humanities Press International, Atlantic Highlands, NJ
- Breuss, F., and Eller, M., 2004, "The Optimal Decentralisation of Government Activity: Normative Recommendations for the European Constitution", *Constitutional Political Economy*, vol.15, no. 1, pp. 27-76
- Buti, M., and Nava, M., 2003, "Towards a European Budgetary System", European University Institute (EUI) Working Papers, RSC No. 2003/08
- Council of the European Union, 2006, Council Decision of 20 February 2006 on Community Strategic Guidelines for rural development, 2006/144/EC, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006D0144:EN:NOT>
- Council of the European Union, 2005, "Financial perspective 2007-2013", Council of the European Union, Brussels, 19 December 2005, 15915/05 CADREFIN 268, http://ue.eu.int/ueDocs/cms_Data/docs/pressdata/en/misc/87677.pdf.
- Council of the European Union, 2005b, "Joint Statement by the Council and the Representatives of the Governments of the Member States meeting in the Council, the European Parliament and the Commission: The European Consensus on Development"
- de la Fuente, A., 2002, "The Effect of Structural Fund Spending on the Spanish Regions: An Assessment of the 1994-99 Objective 1 CSF", Discussion Paper Series, núm. 3673, Centre for Economic Policy Research
- European Commission, 2009, "2009 General budget", <http://eur-lex.europa.eu/budget/www/index-en.htm>
- European Commission, 2008a, "Public Opinion in the European Union", Standard Eurobarometer no. 68

European Commission, 2008b, “Europeans, Agriculture and the Common Agricultural Policy”, Special Eurobarometer, March 2008

European Commission, 2007, “Reforming the Budget, Changing Europe. A Public Consultation Paper in view of the 2008/2009 Budget Review”, Sec(2007) 1188 Final, Brussels,
http://ec.europa.eu/budget/reform/library/issue_paper/consultation_paper_en.pdf.

European Commission, 1997, “Agenda 2000 – Communication: For a Stronger and Wider Union”, DOC/97/6

Figueira, F., 2008, *How to Reform the EU Budget? A Multidisciplinary Approach*, Discussion Paper of the Tjalling C. Koopmans Institute (www.uu.nl/uupublish/tjallingkoopmans/12363main.html)

Figueira, F., and Nunez Ferrer, J., 2008 *Growth Enhancing Measures in the EU Budget*, CEPS Working Paper (www.ceps.eu)

Figueira, F., 2007, *What Competences for the EU? Towards a European Version of Fiscal Federalism*, Discussion Paper of the Tjalling C. Koopmans Institute,
(www.uu.nl/uupublish/tjallingkoopmans/12363main.html)

Figueira, F., 2007, “The Consumer Credit Directive – Still lost in the labyrinth of EU policy-making?”, CEPS/ECRI Commentary no. 3 (www.ceps.eu)

Heinemann, F., Mohl, P., and Osterloh, S., 2008, “Reform Options for the EU Own Resources System”, Zentrum Fur Europaische Wirtschaftsforschung (ZEW) Research Project 8/06

Hoeller, P., Louppe, M., and Vergriete, P., 1996, *Fiscal Relations within the European Union*, OECD Working Paper, no. 163

Juncos, A., 2009, “A More Coherent and Effective European Foreign Policy?”, Federal Trust Working Group Report (www.fedtrust.co.uk)

Kernohan D., 2006, Integrating Europe’s Transport System, CEPS Task Force Report (www.ceps.eu)

Lord, C., and Margette, P., 2001, *Notes Towards a General Theory of Legitimacy in the European Union*, ESRC Working Paper, no.39/02

Musgrave, R., 1959, *The Theory of Public Finance*, New York: McGraw Hill

- Nunez Ferrer, J., 2007, *The EU Budget: The UK Rebate and the CAP – Phasing them both out?*, CEPS Task Force Report (www.ceps.eu)
- Oates, W., 2005, “Towards a Second-Generation Theory of Fiscal Federalism”, *International Tax and Public Finance*, vol.12, no. 1, pp. 349-373
- Pelkmans, J., (2006), *European Integration: Methods and Economic Analysis*, Pearson Education Limited
- Persson, T., Roland, G., and Tabellini, G., 1996, “The Theory of Fiscal Federalism: What does it mean for Europe?”, IGIER Working Paper No. 101 (www.igier.unibocconi.it)
- Sapir, A., 2005, “Globalisation and the Reform of European Social Models”, Bruegel Policy Brief, Issue 2005/01
- Sapir, A., *et al.*, 2003, “An agenda for a growing Europe: making the EU system deliver”, Report of an independent High Level Group established at the initiative of the President of the European Commission
- Smith, M., 2008, “The Accidental Strategist: Military Power, Grand Strategy and the EU’s Changing Global Role”, Discussion paper presented at the Roundtable “Does the EU have a Grand Strategy and does it matter?”, EU Studies Association Conference, Montreal, May 2007
- Swinnen, J. and Van der Zee, F, “The Political Economy of Agricultural Policies: A Survey”, *European Review of Agricultural Economics*, vol. 20, no. 3, pp. 261-290
- Szemlér, T., and Eriksson, J., 2008, “The EU Budget Review: Mapping the Positions of Member States”, Swedish Institute for European Policy Studies (SIEPS) Report 2008:2 (www.sieps.se)
- Thielemann, E., 2008, “The Future of the Common European Asylum System: In Need of a More Comprehensive Burden-Sharing Approach”, Swedish Institute for European Policy Studies (SIEPS) European Policy Analysis 2008:1

SAMMANFATTNING PÅ SVENSKA

Den pågående översynen av EU:s budget kan leda till en eftertraktad reform av Europas finanser. Europeiska kommissionen har fått ett mandat av medlemsstaterna att än en gång djupgående granska av den gemensamma budgeten. Även om de ekonomiska och institutionella kriserna försvårar möjligheterna att nå en uppgörelse, kan översynen trots allt leda till betydande resultat.

EU:s budget har länge kritiserats för att vara dåligt anpassad till dagens EU. Nästan hälften av budgeten går till jordbruket, en sektor som krymper i Europa. Samtidigt får områden som ökar i betydelse i den dagliga verksamheten – som till exempel rättsliga och inrikes frågor och ekonomisk tillväxt – nästan inga medel alls. Det finns därför en uppfattning, både inom EU:s institutioner och i medlemsstaternas regeringar, att EU:s budget måste reformeras i grunden.

När kommissionen nu skissar på ett reformförslag är det dock uppenbart att den litteratur som finns tillgänglig inte ger en bra grund att stå på, eftersom den inte tar hänsyn till den politiska verkligheten. Framför allt missar många studier att det inte går att sätta likhetstecken mellan EU:s budget och nationella budgetar: EU är framför allt en lagstiftande union, där makten att spendera gemensamma medel är liten och huvudsakligen till för att stödja lagstiftningsarbetet. Därför behövs en annan typ av analys, som tar upp inte bara de ekonomiska frågorna utan också de politiska aspekterna.

Den här rapporten bidrar till att fylla hålet i litteraturen genom att föreslå en metod för att analysera EU:s budget på ett sätt som stämmer bättre överens med den politiska verkligheten. Metoden är multidisciplinär och kombinerar en gren av nationalekonomin som vanligen används för att analysera EU och EU:s budget (fiskal federalism) med en annan gren av nationalekonomin (offentlig ekonomi). Den tar även hänsyn till statsvetenskapliga aspekter och subsidiaritetsprincipen. Utifrån dessa härleds sedan en *tolvstegsanalys* som appliceras på EU:s huvudsakliga policyområden för att bestämma om de bör finansieras från EU:s budget eller ej.

Analysen tar även upp två punkter som ofta glöms bort i litteraturen om EU:s budget. För det första bör man ta hänsyn till olika underkategorier när ett policyområde analyseras och inte bara området i sin helhet. För det andra bör man inte isolera EU:s budget från de nationella budgetarna. Även om forskare på senare tid har börjat uppmärksamma detta, finns det såvitt rapportens författare känner till ännu ingen omfattande analys av EU:s budget som tar hela steget ut.

Rapporten fokuserar därför på vilka delar av varje policyområde som bör finansieras av EU:s budget – snarare än att fokusera på områdena i stort. Argumentet är att det som är intressant i sammanhanget är vilka specifika program inom ett antal olika policyområden som ska finansieras av EU:s budget och inte om ett område ska ges finansiering överhuvudtaget. Detta hänger ihop med den andra punkten, nämligen att EU:s budget inte bör isoleras från de nationella budgetarna. EU-program finns parallellt med nationella program och måste också utformas därefter.

Även om den här rapporten lägger vikt vid EU:s politiska verklighet, är rekommendationerna med avsikt inte baserade på politisk ekonomi. Med andra ord: rapporten föreslår en optimal struktur för EU:s budget utan att ta någon särskild hänsyn till vilka uppgörelser som eventuellt är troligast vid förhandlingarna om nästa budgetplan. Det första steget bör vara att bestämma vilka områden och program som bör finansieras från EU:s budget. Steg två är att bestämma vilka reformer – i syfte att över tid etablera en optimal budget – som kan uppnås inom ramen för budgetöversynen och vilka reformer som måste lämnas åt framtiden.

Kort sammanfattning av metoden

De första stegen i metoden härleds från offentlig ekonomi, den gren av nationalekonomin som analyserar statsmaktens aktiviteter. Teorierna ger stöd åt de flesta politikområdena på den nationella nivån, men Figueira (2008) menar att de ofta glöms bort på EU-nivån. De första stegen eller frågorna är:

1. Behövs utgifterna för att a) åtgärda ett marknadsmisslyckande eller b) nå ett rättvisemål?
2. Kräver detta statsmaktens inblandning i form av lagstiftning eller budgetutgifter?
3. Kan ingripandet göras kostnadseffektivt?

Nästa steg i metoden härleds från fiskal federalism, den gren av national-ekonomin som analyserar vilken av statsmaktens funktioner som bör användas vid central, regional respektive lokal nivå. Att teorin tillämpas på EU-nivån innebär att analysen istället används för att avgöra vad EU respektive medlemsstaterna bör ansvara för. De tre steg som härleds från fiskal federalism är:

4. Bör utgifterna finansieras på EU-nivå eftersom de behandlar externa effekter eller innebär stordriftsfördelar?
5. Eller bör utgifterna allokeras till den nationella nivån eftersom det finns för stora skillnader mellan medlemsstaternas syn på ett specifikt politikområde?

6. Finns det inom området svårigheter eller misslyckanden på nationell nivå som kan undvikas på EU-nivå?

I den här rapporten argumenteras för att en analys av EU:s budget också måste ta in politiska aspekter. Därför måste vi analysera frågan utifrån två håll. För det första – *steg 7* – måste en diskussion föras om EU:s budgetprioriteringar: kan budgeten ses som medlemsstaternas förhandlingsverktyg; som ett sätt att göra EU mer populärt; som en hävstång för nationell politik; eller som ett allokering- eller omfördelningsinstrument?

För det andra krävs en diskussion utifrån statsvetenskaplig litteratur om vilka områden som är legitima på EU-nivån. De följande stegen eller frågorna är därför:

8. Ger opinionen stöd för att politiken ska föras på EU- eller nationell nivå?
9. Är det mer demokratiskt och lättare att utkräva ansvar på EU- eller den nationella nivån, med hänsyn till de procedurer som finns?
10. Är det motiverat från en normativ synpunkt att föra politiken till EU-nivån?

Slutligen används rättsliga principer från EG-fördraget för ytterligare vägledning. *Steg 11* utgår från subsidiaritetsprincipen, som säger att EU endast bör agera inom områden där effektiviteten är större än om politiken stannar kvar på den nationella nivån. *Steg 12* tar sin utgångspunkt i proportionalitetsprincipen, som säger att om EU ingriper ska ingripandet vara proportionellt, det vill säga begränsas till vad som är nödvändigt för att nå målet.

Slutsatser

I rapportens andra del tillämpas metoden på EU:s utgifter. Varje utgiftsområde analyseras med tolvstegsmetoden. Svaren på dessa frågor gör det möjligt att avgöra om en specifik utgift ska finnas i EU:s budget eller inte.

Rapporten landar i två huvudsakliga slutsatser. *För det första* – något som står i kontrast till rekommendationer från den akademiska litteraturen – bör EU:s budget inte vara en exakt reflektion av EU:s politiska prioriteringar. Förklaringen är att EU:s aktiviteter baseras på lagstiftning snarare än på utgifter. Ett beslut om att finansiera en politik på EU-nivån bör med andra ord tas om finansiering är nödvändig för att stödja regleringen och *inte* på hur viktig politiken anses vara på EU-nivån.

För det andra bör EU:s budget rikta in sig på ett litet antal områden, så att den blir användbar trots sin ringa storlek. Samtidigt vet vi att EU idag är

engagerad i nästan alla politikområden och att det av effektivitetsskäl därför är nödvändigt att fortsätta stödja dessa områden. En möjlig lösning vore att behålla små budgetposter för att ge stöd åt ett stort antal politikområden.

De *konkreta förslagen* är följande:

- Sammanhållningspolitiken bör även fortsättningsvis ges samma andel från budgeten, det vill säga ungefär en tredjedel;
- Den gemensamma jordbrukspolitiken bör inte längre vara en utgiftspost i EU:s budget;
- Utgifterna för att finansiera forskningspolitiken bör öka markant och bli den näst största utgiftsposten efter sammanhållningspolitiken;
- Fyra områden bör tilldelas betydligt större resurser: utvecklingspolitiken; externa relationer; frihet, säkerhet och rättvisa; samt transport och energi;
- Följande områden bör ges endast en liten andel operationella resurser: utbildning; kultur; sysselsättning och socialpolitik; företag; miljö; konsument- och hälsopolitik; och kommunikation.

SIEPS PUBLICATIONS AVAILABLE IN ENGLISH

2009

2009:4

*Climate Change and Energy Security in Europe:
Policy Integration and its Limits*

Authors: Camilla Adelle, Marc Pallemmaerts and Joanna Chiavari

2009:3

Empowering National Courts in EU Law

Authors: Xavier Groussot, Christoffer Wong, Andreas Inghammar
and Anette Bruzelius

2009:2

Migration as Foreign Policy?

The External Dimension of EU Action on Migration and Asylum

Author: Andrew Geddes

2009:1

Fiscal Federalism, Subsidiarity and the EU Budget Review

Author: Iain Begg

2009:2op

The 2009 Czech EU Presidency: Contested Leadership at a Time of Crisis

Authors: David Král, Vladimír Bartovic and Věra Řiháčková

2009:1op

Democracy Promotion in a Transatlantic Perspective

Contributions by Maria Leissner, Annika Björkdahl, Roel von Meijenfeldt,
Tom Melia, Pavol Demeš and Michael Allen

2009:8epa

What to Expect in the 2009-14 European Parliament:

Return of the Grand Coalition?

Author: Simon Hix

2009:7epa

The 2009 Swedish EU Presidency: The Setting, Priorities and Roles

Authors: Fredrik Langdal and Göran von Sydow

2009:5epa

*When Lab Results are not Sufficient: On the Limitations of Science
in Tackling Modern Food Regulatory Concerns*

Author: Karolina Zurek

2009:2epa

Democracy Promotion in a Transatlantic Perspective:

Reflections from an Expert Working Group

Author: Anna Michalski

2009:1epa

Foreign Policy Challenges for the Obama Administration

Author: John K. Glenn

2008

2008:9

Immigrants from the New EU Member States and the Swedish Welfare State

Authors: Christer Gerdes and Eskil Wadensjö

2008:8

The EU as a Global Actor in the South

Authors: Björn Hettne, Fredrik Söderbaum and Patrik Stålgren

2008:6–7

Institutional Competences in the EU External Action: Actors and Boundaries in CFSP and ESDP

Authors: Lisbeth Aggestam, Francesco Anesi, Geoffrey Edwards, Christopher Hill and David Rijks

2008:5

Transforming the European Community's Regulation of Food Safety

Author: Morten Broberg

2008:4

Turning the EU Budget into an Instrument to Support the Fight against Climate Change

Authors: Camilla Adelle, Marc Pallemmaerts and David Baldock

2008:3

Can Reforming Own Resources Foster Policy Quality?

Author: Jorge Núñez Ferrer

2008:2

The EU Budget Review:

Mapping the Positions of Member States

Editors: Tamás Szemplér and Jonas Eriksson

2008:1

Common Energy Policy in the EU:

The Moral Hazard of the Security of External Supply

Authors: Chloé le Coq and Elena Paltseva

2008:2op

The 2008 Slovenian EU Presidency:

A New Synergy for Europe? A Midterm Report

Authors: Danica Fink-Hafner and Damjan Lajh

2008:1op
The Pursue of the European Union: Setting Priorities for the Future
Contributors: Iain Begg, André Sapir and Jonas Eriksson

2008:8epa
*The potential impact of the Lisbon Treaty on
European Union External Trade Policy*
Author: Stephen Woolcock

2008:4epa
The Lisbon Treaty and EMU
Author: Sideek Mohamed Seyad

2008:3epa
The Lisbon Treaty and the Area of Criminal Law and Justice
Author: Ester Herlin-Karnell

2008:2epa
A Better Budget for Europe: Economically Efficient, Politically Realistic
Author: Filipa Figueira

2008:1epa
*The Future of the Common European Asylum System:
In Need of a More Comprehensive Burden-Sharing Approach*
Author: Eiko Thielemann

2007

2007:6
EU for the Patients: Developments, Impacts, Challenges
Author: Dorte Sindbjerg Martinsen

2007:3
Does a Family-Friendly Policy Raise Fertility Levels?
Author: Anders Björklund

2007:2
The Euro – What's in it for me?
An Economic Analysis of the Swedish Euro Referendum 2003
Authors: Lars Jonung and Jonas Vlachos

2007:1
Bargaining Power in the European Council
Author: Jonas Tallberg

2007:1u
New Criminal Law Developments in the Community Legal Order
Author: Hanna Goeters

2007:2op

Why Europe? Possibilities and Limits of European Integration

Authors: Andreas Føllesdal, Jo Shaw, Andrew Moravcsik, Fredrik Langdal and Göran von Sydow

2007:1op

The 2007 German EU Presidency: A Midterm Report

Authors: Sebastian Kurpas and Henning Riecke

2007:6epa

Flexicurity – An Answer or a Question?

Author: Lars Calmfors

2007:5epa

Agenda 2014: A Zero-Base Approach

Author: Daniel Tarschys

2007:3epa

A New Proposal for a Regulation on Mutual Recognition of Goods – Towards a Harmonized Administrative Order?

Author: Jane Reichel

2007:2epa

Spillover or Activist Leapfrogging?

Criminal Competence and the Sensitiveness of the European Court of Justice

Author: Maria Bergström

2007:1epa

Better Regulation of Mobile Telecommunications

Authors: Johan Stennek and Thomas P. Tangerås

2006

2006:12

The Legal Basis Game and European Governance

Author: Joseph Jupille

2006:11

Budget Allocation in an Expanding EU – A Power Politics View

Author: Mika Widgrén

2006:10

International Agreements in EU Neighbourhood Policy

Author: Marius Vahl

2006:5

Freedom of Movement for Workers from Central and Eastern Europe: Experiences in Ireland and Sweden

Authors: Nicola Doyle, Gerard Hughes and Eskil Wadensjö

2006:4

*The Dynamics of Enlargement:
The Role of the EU in Candidate Countries' Domestic Policy Processes*
Author: Andreas Bågenholm

2006:2

*Armed and Ready?
The EU Battlegroup Concept and the Nordic Battlegroup*
Author: Jan Joel Andersson

2006:1

*Leader or Foot-Dragger?
Perceptions of the European Union in Multilateral International
Negotiations*
Author: Ole Elgström

2006:1op

The Austrian EU Presidency: A Midterm Report
Author: Paul Luif

2005

2005:10

*The Role of the National Courts in the European Union:
A Future Perspective*
Author: Xavier Groussot

2005:9

Is the Commission the Small Member States' Best Friend?
Authors: Simone Bunse, Paul Maignette and Kalypso Nicolaïdis

2005:8

What Remains of the Stability Pact and What Next?
Author: Lars Calmfors

2005:7

European Integration and Trade Diversion: Yeats revisited
Authors: Ari Kokko, Thomas Mathä and Patrik Gustavsson Tingvall

2005:5

*From Policy Takers to Policy Makers:
Adapting EU Cohesion Policy to the Needs of the New Member States*
Editors: Jonas Eriksson, Bengt O. Karlsson and Daniel Tarschys

2005:4

*The Enigma of European Added Value:
Setting Priorities for the European Union*
Author: Daniel Tarschys

2005:2op

The 2005 UK Presidency: Beyond the British Question?

Author: Edward Best

2005:1op

The 2005 Luxembourg Presidency:

A Presidency Devoted to the Stability and Growth Pact and to the Lisbon Process

Authors: Patrick Dumont and Philippe Poirier

2004

2004:9

The Political Dynamics of Turkish Accession to the EU:

A European Success Story or the EU's Most Contested Enlargement?

Author: Kirsty Hughes

2004:1u

European Governance

– an Overview of the Commission's Agenda for Reform

Authors: Josefin Almer and Matilda Rotkirch

2004:1op

The Netherlands 2004 EU Council Presidency

– Dutch EU Policy-Making in the Spotlights

Author: Mendeltje van Keulen

2003

2003:19

Industrial Structure and Industry Location in an Enlarged Europe

Author: Karolina Ekholm

2003:18

Coming of Age? Economic Management of the European Union

Authors: Per Molander and Allan Gustafsson

2003:17

Reinventing Cohesion: The Future of European Structural Policy

Author: Daniel Tarschys

2003:14

Decentralized Agencies and the IGC: A Question of Accountability

Authors: Carl Fredrik Bergström and Matilda Rotkirch

2003:9

Reforming the Council: A Work in Progress

Authors: Helen Wallace and Fiona Hayes-Renshaw

2003:8

Simply Simplification? The Proposal for a Hierarchy of Legal Acts

Authors: Carl Fredrik Bergström and Matilda Rotkirch

2003:7

The Invisible Transformation of Codecision:

Problems of Democratic Legitimacy

Authors: Henry Farrell and Adrienne Héritier

2003:1

The Open Method of Coordination:

A New Governance Architecture for the European Union?

Author: Claudio M. Radaelli

2003:1op

Contrasting Transatlantic Interpretations:

The EU and the US towards a Common Global Role

Author: Ludger Kühnhardt



Sieps ●●●

Swedish Institute for European Policy Studies

Fleminggatan 20

SE-112 26 Stockholm

Tel: +46-(0)8-454 47 00

Fax: +46-(0)8-454 47 06

E-mail: info@sieps.se

www.sieps.se